

ANNUAL STATEMENT

For the Year Ending December 31, 2003

OF THE CONDITION AND AFFAIRS OF THE

Health Plan of Michigan, Inc.

|                                       |   |   |  |       |                      |            |
|---------------------------------------|---|---|--|-------|----------------------|------------|
| NAIC Group Code                       | 0000  | 0000  | NAIC Company Code  | 52563 | Employer's ID Number | 38-3253977 |
|                                       | (Current Period)  | (Prior Period)  |  |       |                      |            |
| Organized under the Laws of           | Michigan  | State of Domicile or Port of Entry  | Michigan   |       |                      |            |
| Country of Domicile                   | United States of America  |   |  |       |                      |            |
| Licensed as business type:            | Life, Accident & Health[ ]<br>Dental Service Corporation[ ]<br>Other[ ] | Property/Casualty[ ]<br>Vision Service Corporation[ ]<br>Is HMO Federally Qualified? Yes[ ] No[X] | Hospital, Medical & Dental Service or Indemnity[ ]<br>Health Maintenance Organization[X] |       |                      |            |
| Date Incorporated or Organized        | 12/31/1995  | Date Commenced Business   | 12/31/1995   |       |                      |            |
| Statutory Home Office                 | 17515 W. Nine Mile Road, Suite 650                                      | Southfield, MI 48075  |  |       |                      |            |
|                                       | (Street and Number)   | (City, or Town, State and Zip Code)   |  |       |                      |            |
| Main Administrative Office            | 17515 W. Nine Mile Road, Suite 650                                      |   |  |       |                      |            |
|                                       | (Street and Number)   |   |  |       |                      |            |
|                                       | Southfield, MI 48075  | (248)557-3700   |  |       |                      |            |
|                                       | (City or Town, State and Zip Code)                                      | (Area Code) (Telephone Number)  |  |       |                      |            |
| Mail Address                          | 17515 W.Nine Mile Road, Suite 650                                       | Southfield, MI 48075  |  |       |                      |            |
|                                       | (Street and Number or P.O. Box)   | (City, or Town, State and Zip Code)   |  |       |                      |            |
| Primary Location of Books and Records | Same  |   |  |       |                      |            |
|                                       | (Street and Number)   |   |  |       |                      |            |
|                                       | Same,   | (248)557-3700   |  |       |                      |            |
|                                       | (City, or Town, State and Zip Code)                                     | (Area Code) (Telephone Number)  |  |       |                      |            |
| Internet Website Address              | www.hpmich.com  |   |  |       |                      |            |
| Statutory Statement Contact           | Jon B. Cotton   | (248)204-6011   |  |       |                      |            |
|                                       | (Name)  | (Area Code)(Telephone Number)(Extension)  |  |       |                      |            |
|                                       | j cotton@hpmich.com   | (248)557-4638   |  |       |                      |            |
|                                       | (E-Mail Address)  | (Fax Number)  |  |       |                      |            |
| Policyowner Relations Contact         | 17515 W. Nine Mile Road, Suite 650                                      |   |  |       |                      |            |
|                                       | (Street and Number)   |   |  |       |                      |            |
|                                       | Southfield, MI 48075  | (248)557-3700   |  |       |                      |            |
|                                       | (City, or Town, State and Zip Code)                                     | (Area Code) (Telephone Number)(Extension)   |  |       |                      |            |

OFFICERS

|               |                      |
|---------------|----------------------|
| President/CEO | David B. Cotton M.D. |
| Secretary/CIO | Thomas Lauzon        |
| Treasurer/CFO | Janice Torosian      |

VICE PRESIDENTS

DIRECTORS OR TRUSTEES

|                  |              |
|------------------|--------------|
| Timothy Beck     | George Ellis |
| Thomas Lauzon    | Laura Leege  |
| Melanie Shearman |              |

|           |            |
|-----------|------------|
| State of  | Michigan   |
| County of | Oakland ss |

The officers of this reporting entity, being duly sworn, each depose and say that they are the described officers of the said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively.

|                       |                                |                 |
|-----------------------|--------------------------------|-----------------|
| (Signature)           | (Signature)                    | (Signature)     |
| David B. Cotton, M.D. | Thomas Lauzon                  | Janice Torosian |
| (Printed Name)        | (Printed Name)                 | (Printed Name)  |
| President             | Secretary                      | Treasurer       |
|                       |                                |                 |
|                       | a. Is this an original filing? | Yes[X] No[ ]    |
|                       | b. If no,                      |                 |
|                       | 1. State the amendment number  |                 |
|                       | 2. Date filed                  |                 |
|                       | 3. Number of pages attached    |                 |

Subscribed and sworn to before me this  
day of , 2004

(Notary Public Signature)

ASSETS

|                      |   | Current Year |                    |                                | Prior Year          |
|----------------------|---|--------------|--------------------|--------------------------------|---------------------|
|                      |   | 1            | 2                  | 3                              | 4                   |
|                      |   | Assets       | Nonadmitted Assets | Net Admitted Assets (Cols.1-2) | Net Admitted Assets |
| 1.                   | Bonds (Schedule D) .....  | 3,838,957    |                    | 3,838,957                      |                     |
| 2.                   | Stocks (Schedule D)   |              |                    |                                |                     |
| 2.1                  | Preferred stocks .....  | 449,914      | 6,594              | 443,320                        |                     |
| 2.2                  | Common Stocks .....   |              |                    |                                |                     |
| 3.                   | Mortgage loans on real estate (Schedule B):   |              |                    |                                |                     |
| 3.1                  | First liens .....   |              |                    |                                |                     |
| 3.2                  | Other than first liens .....  |              |                    |                                |                     |
| 4.                   | Real estate (Schedule A):   |              |                    |                                |                     |
| 4.1                  | Properties occupied by the company (less \$..... encumbrances) .....  | 69,584       | 10,438             | 59,146                         | 80,402              |
| 4.2                  | Properties held for the production of income (less \$..... encumbrances) .....  | 622,104      |                    | 622,104                        |                     |
| 4.3                  | Properties held for sale (less \$..... encumbrances) .....  |              |                    |                                |                     |
| 5.                   | Cash (\$.....22,605,542 Schedule E Part 1), cash equivalents (\$..... Schedule E Part 2) and short-term investments (\$..... Schedule DA) ..... | 22,605,542   |                    | 22,605,542                     | 16,636,445          |
| 6.                   | Contract loans (including \$..... premium notes) .....  |              |                    |                                |                     |
| 7.                   | Other invested assets (Schedule BA) .....   | 1,056,181    |                    | 1,056,181                      |                     |
| 8.                   | Receivable for securities .....   |              |                    |                                |                     |
| 9.                   | Aggregate write-ins for invested assets .....   |              |                    |                                |                     |
| 10.                  | Subtotals, cash and invested assets (Lines 1 to 9) .....  | 28,642,282   | 17,032             | 28,625,250                     | 16,716,847          |
| 11.                  | Investment income due and accrued .....   | 38,927       |                    | 38,927                         |                     |
| 12.                  | Premiums and considerations   |              |                    |                                |                     |
| 12.1                 | Uncollected premiums and agents' balances in the course of collection .....   |              |                    |                                |                     |
| 12.2                 | Deferred premiums, agents' balances and installments booked but deferred and not yet due (Including \$..... earned but unbilled premiums) ..... |              |                    |                                |                     |
| 12.3                 | Accrued retrospective premiums .....  |              |                    |                                |                     |
| 13.                  | Reinsurance:  |              |                    |                                |                     |
| 13.1                 | Amounts recoverable from reinsurers .....   |              |                    |                                | 69,733              |
| 13.2                 | Funds held by or deposited with reinsured companies .....   |              |                    |                                |                     |
| 13.3                 | Other amounts receivable under reinsurance contracts .....  |              |                    |                                |                     |
| 14.                  | Amounts receivable relating to uninsured plans .....  |              |                    |                                |                     |
| 15.1                 | Current federal and foreign income tax recoverable and interest thereon ...   |              |                    |                                |                     |
| 15.2                 | Net deferred tax asset .....  | 35,000       |                    | 35,000                         |                     |
| 16.                  | Guaranty funds receivable or on deposit .....   |              |                    |                                |                     |
| 17.                  | Electronic data processing equipment and software .....   | 400,420      | 178,568            | 221,852                        | 198,329             |
| 18.                  | Furniture and equipment, including health care delivery assets (\$.....) .....  | 111,128      | 16,669             | 94,459                         | 121,833             |
| 19.                  | Net adjustment in assets and liabilities due to foreign exchange rates .....  |              |                    |                                |                     |
| 20.                  | Receivables from parent, subsidiaries and affiliates .....  |              |                    |                                |                     |
| 21.                  | Health care (\$.....1,645,800) and other amounts receivable .....   | 1,645,800    | 105,572            | 1,540,228                      | 925,252             |
| 22.                  | Other assets nonadmitted .....  |              |                    |                                |                     |
| 23.                  | Aggregate write-ins for other than invested assets .....  | 1,084,261    | 1,056,265          | 27,996                         | 14,970              |
| 24.                  | Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23) .....                                | 31,957,818   | 1,374,106          | 30,583,712                     | 18,046,964          |
| 25.                  | From Separate Accounts, Segregated Accounts and Protected Cell Accounts .....   |              |                    |                                |                     |
| 26.                  | Total (Lines 24 and 25) .....   | 31,957,818   | 1,374,106          | 30,583,712                     | 18,046,964          |
| DETAILS OF WRITE-INS |   |              |                    |                                |                     |
| 0901                 | .....   |              |                    |                                |                     |
| 0902                 | .....   |              |                    |                                |                     |
| 0903                 | .....   |              |                    |                                |                     |
| 0998.                | Summary of remaining write-ins for Line 9 from overflow page .....  |              |                    |                                |                     |
| 0999.                | TOTALS (Lines 0901 through 0903 plus 0998) (Line 9 above) .....   |              |                    |                                |                     |
| 2301.                | Miscellaneous A/R & Deposits .....  | 27,996       |                    | 27,996                         | 14,970              |
| 2302.                | Acquired Membership Value .....   | 1,047,810    | 1,047,810          |                                |                     |
| 2303.                | Long Term Investment Fair Value Adjustment .....  | (7,235)      | (7,235)            |                                |                     |
| 2398.                | Summary of remaining write-ins for Line 23 from overflow page .....   | 15,690       | 15,690             |                                |                     |
| 2399.                | TOTALS (Lines 2301 through 2303 plus 2398) (Line 23 above) .....  | 1,084,261    | 1,056,265          | 27,996                         | 14,970              |

LIABILITIES, CAPITAL AND SURPLUS

|                      |   | Current Year |                |            | Prior Year |
|----------------------|---|--------------|----------------|------------|------------|
|                      |   | 1<br>Covered | 2<br>Uncovered | 3<br>Total | 4<br>Total |
| 1.                   | Claims unpaid (less \$..... reinsurance ceded) .....  | 11,310,442   |                | 11,310,442 | 8,583,513  |
| 2.                   | Accrued medical incentive pool and bonus amounts .....  | 274,691      |                | 274,691    | 89,500     |
| 3.                   | Unpaid claims adjustment expenses .....   | 274,141      |                | 274,141    | 204,240    |
| 4.                   | Aggregate health policy reserves .....  |              |                |            |            |
| 5.                   | Aggregate life policy reserves .....  |              |                |            |            |
| 6.                   | Property/casualty unearned premium reserves .....   |              |                |            |            |
| 7.                   | Aggregate health claim reserves .....   |              |                |            |            |
| 8.                   | Premiums received in advance .....  |              |                |            |            |
| 9.                   | General expenses due or accrued .....   | 533,982      |                | 533,982    | 473,796    |
| 10.1                 | Current federal and foreign income tax payable and interest thereon (including \$.....<br>on realized capital gains (losses)) ..... | 1,850,000    |                | 1,850,000  | 175,642    |
| 10.2                 | Net deferred tax liability .....  |              |                |            |            |
| 11.                  | Ceded reinsurance premiums payable .....  |              |                |            |            |
| 12.                  | Amounts withheld or retained for the account of others .....  |              |                |            |            |
| 13.                  | Remittance and items not allocated .....  |              |                |            |            |
| 14.                  | Borrowed money (including \$..... current) and interest thereon \$..... (including<br>\$..... current) .....                        |              |                |            |            |
| 15.                  | Amounts due to parent, subsidiaries and affiliates .....  |              |                |            |            |
| 16.                  | Payable for securities .....  |              |                |            |            |
| 17.                  | Funds held under reinsurance treaties with (\$..... authorized reinsurers and<br>\$..... unauthorized reinsurers) .....             |              |                |            |            |
| 18.                  | Reinsurance in unauthorized companies .....   |              |                |            |            |
| 19.                  | Net adjustments in assets and liabilities due to foreign exchange rates .....   |              |                |            |            |
| 20.                  | Liability for amounts held under uninsured accident and health plans .....  |              |                |            |            |
| 21.                  | Aggregate write-ins for other liabilities (including \$..... current) .....   | 1,336,623    |                | 1,336,623  |            |
| 22.                  | TOTAL Liabilities (Lines 1 to 21) .....   | 15,579,879   |                | 15,579,879 | 9,526,691  |
| 23.                  | Common capital stock .....  | X X X        | X X X          | 44,700     | 49,899     |
| 24.                  | Preferred capital stock .....   | X X X        | X X X          |            |            |
| 25.                  | Gross paid in and contributed surplus .....   | X X X        | X X X          | 251,363    | 280,602    |
| 26.                  | Surplus notes .....   | X X X        | X X X          |            |            |
| 27.                  | Aggregate write-ins for other than special surplus funds .....  | X X X        | X X X          |            |            |
| 28.                  | Unassigned funds (surplus) .....  | X X X        | X X X          | 14,707,771 | 8,189,772  |
| 29.                  | Less treasury stock, at cost:   | X X X        | X X X          |            |            |
| 29.1                 | ..... shares common (value included in Line 23 \$.....)   | X X X        | X X X          |            |            |
| 29.2                 | ..... shares preferred (value included in Line 24 \$.....)  | X X X        | X X X          |            |            |
| 30.                  | TOTAL capital and surplus (Lines 23 to 28 minus Line 29) .....  | X X X        | X X X          | 15,003,834 | 8,520,273  |
| 31.                  | TOTAL Liabilities, capital and surplus (Lines 22 and 30) .....  | X X X        | X X X          | 30,583,713 | 18,046,964 |
| DETAILS OF WRITE-INS |   |              |                |            |            |
| 2101.                | Quality Assurance Assessment Fee .....  | 1,336,623    |                | 1,336,623  |            |
| 2102                 | .....   |              |                |            |            |
| 2103                 | .....   |              |                |            |            |
| 2198.                | Summary of remaining write-ins for Line 21 from overflow page .....   |              |                |            |            |
| 2199.                | TOTALS (Lines 2101 through 2103 plus 2198) (Line 21 above) .....  | 1,336,623    |                | 1,336,623  |            |
| 2701                 | .....   | X X X        | X X X          |            |            |
| 2702                 | .....   | X X X        | X X X          |            |            |
| 2703                 | .....   | X X X        | X X X          |            |            |
| 2798.                | Summary of remaining write-ins for Line 27 from overflow page .....   | X X X        | X X X          |            |            |
| 2799.                | TOTALS (Lines 2701 through 2703 plus 2798) (Line 27 above) .....  | X X X        | X X X          |            |            |

STATEMENT OF REVENUE AND EXPENSES

|                       |   | Current Year   |             | Prior Year |
|-----------------------|---|----------------|-------------|------------|
|                       |   | 1<br>Uncovered | 2<br>Total  | 3<br>Total |
| 1.                    | Member Months .....   | X X X .....    | 692,288     | 481,992    |
| 2.                    | Net premium income (including \$..... non-health premium income) .....  | X X X .....    | 97,918,564  | 64,563,007 |
| 3.                    | Change in unearned premium reserves and reserve for rate credits .....  | X X X .....    |             |            |
| 4.                    | Fee-for-service (net of \$..... medical expenses) .....   | X X X .....    |             |            |
| 5.                    | Risk revenue .....  | X X X .....    |             |            |
| 6.                    | Aggregate write-ins for other health care related revenues .....  | X X X .....    | (3,570,168) | 114,672    |
| 7.                    | Aggregate write-ins for other non-health revenues .....   | X X X .....    |             |            |
| 8.                    | TOTAL revenues (Lines 2 to 7) .....   | X X X .....    | 94,348,396  | 64,677,679 |
| Hospital and Medical: |   |                |             |            |
| 9.                    | Hospital/medical benefits .....   |                | 47,273,631  | 35,326,704 |
| 10.                   | Other professional services .....   |                | 514,229     | 587,717    |
| 11.                   | Outside referrals .....   |                | 5,390,706   | 3,169,717  |
| 12.                   | Emergency room and out-of-area .....  |                | 2,987,796   | 2,435,929  |
| 13.                   | Prescription drugs .....  |                | 16,831,597  | 10,365,857 |
| 14.                   | Aggregate write-ins for other hospital and medical .....  |                | 64,347      | 68,812     |
| 15.                   | Incentive pool, withhold adjustments and bonus amounts .....  |                | 639,099     | 360,649    |
| 16.                   | Subtotal (Lines 9 to 15) .....  |                | 73,701,405  | 52,315,385 |
| Less:                 |   |                |             |            |
| 17.                   | Net reinsurance recoveries .....  |                | 402,288     | 219,886    |
| 18.                   | TOTAL hospital and medical (Lines 16 minus 17) .....  |                | 73,299,117  | 52,095,499 |
| 19.                   | Non-health claims .....   |                |             |            |
| 20.                   | Claims adjustment expenses .....  |                | 824,833     | 641,524    |
| 21.                   | General administrative expenses .....   |                | 7,926,421   | 6,635,238  |
| 22.                   | Increase in reserves for life and accident and health contracts (including \$..... increase in reserves for life only) .....    |                |             |            |
| 23.                   | TOTAL underwriting deductions (Lines 18 through 22) .....   |                | 82,050,371  | 59,372,261 |
| 24.                   | Net underwriting gain or (loss) (Lines 8 minus 23) .....  | X X X .....    | 12,298,025  | 5,305,418  |
| 25.                   | Net investment income earned .....  |                | 184,044     | 225,346    |
| 26.                   | Net realized capital gains or (losses) .....  |                |             |            |
| 27.                   | Net investment gains or (losses) (Lines 25 plus 26) .....   |                | 184,044     | 225,346    |
| 28.                   | Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$.....) (amount charged off \$.....)] ..... |                |             |            |
| 29.                   | Aggregate write-ins for other income or expenses .....  |                | 609         | 456        |
| 30.                   | Net income or (loss) before federal income taxes (Lines 24 plus 27 plus 28 plus 29) .....                                       | X X X .....    | 12,482,678  | 5,531,220  |
| 31.                   | Federal and foreign income taxes incurred .....   | X X X .....    | 4,566,082   | 1,870,614  |
| 32.                   | Net income (loss) (Lines 30 minus 31) .....   | X X X .....    | 7,916,596   | 3,660,606  |
| DETAILS OF WRITE-INS  |   |                |             |            |
| 0601.                 | Quality Assurance Fee .....   | X X X .....    | (3,570,168) | 114,672    |
| 0602                  | .....   | X X X .....    |             |            |
| 0603                  | .....   | X X X .....    |             |            |
| 0698.                 | Summary of remaining write-ins for Line 6 from overflow page .....  | X X X .....    |             |            |
| 0699.                 | TOTALS (Lines 0601 through 0603 plus 0698) (Line 6 above) .....   | X X X .....    | (3,570,168) | 114,672    |
| 0701                  | .....   | X X X .....    |             |            |
| 0702                  | .....   | X X X .....    |             |            |
| 0703                  | .....   | X X X .....    |             |            |
| 0798.                 | Summary of remaining write-ins for Line 7 from overflow page .....  | X X X .....    |             |            |
| 0799.                 | TOTALS (Line 0701 through 0703 plus 0798) (Line 7 above) .....  | X X X .....    |             |            |
| 1401.                 | Hearing/Speech devices .....  |                | 64,347      | 68,812     |
| 1402.                 | COB/Subrogation .....   |                |             |            |
| 1403                  | .....   |                |             |            |
| 1498.                 | Summary of remaining write-ins for Line 14 from overflow page .....   |                |             |            |
| 1499.                 | TOTALS (Lines 1401 through 1403 plus 1498) (Line 14 above) .....  |                | 64,347      | 68,812     |
| 2901.                 | Miscellaneous Income - Sale of Furniture and Equipment .....  |                | 609         | 456        |
| 2902                  | .....   |                |             |            |
| 2903                  | .....   |                |             |            |
| 2998.                 | Summary of remaining write-ins for Line 29 from overflow page .....   |                |             |            |
| 2999.                 | TOTALS (Line 2901 through 2903 plus 2998) (Line 29 above) .....   |                | 609         | 456        |

STATEMENT OF REVENUE AND EXPENSES (Continued)

|                                       |  | 1            | 2          |
|---------------------------------------|--|--------------|------------|
|                                       |  | Current Year | Prior Year |
| CAPITAL & SURPLUS ACCOUNT             |  |              |            |
| 33.                                   | Capital and surplus prior reporting year .....                         | 8,520,273    | 4,647,252  |
| GAINS AND LOSSES TO CAPITAL & SURPLUS |  |              |            |
| 34.                                   | Net income or (loss) from Line 32 .....                                | 7,916,596    | 3,660,606  |
| 35.                                   | Change in valuation basis of aggregate policy and claim reserves ..... |              |            |
| 36.                                   | Net unrealized capital gains and losses .....                          | 53,995       |            |
| 37.                                   | Change in net unrealized foreign exchange capital gain or (loss) ..... |              |            |
| 38.                                   | Change in net deferred income tax .....                                | 21,000       | (48,000)   |
| 39.                                   | Change in nonadmitted assets .....                                     | 8,305        | 260,415    |
| 40.                                   | Change in unauthorized reinsurance .....                               |              |            |
| 41.                                   | Change in treasury stock .....   |              |            |
| 42.                                   | Change in surplus notes .....  |              |            |
| 43.                                   | Cumulative effect of changes in accounting principles .....            | (16,335)     |            |
| 44.                                   | Capital Changes:   |              |            |
| 44.1                                  | Paid in .....  | (5,199)      | 0          |
| 44.2                                  | Transferred from surplus (Stock Dividend) .....                        |              |            |
| 44.3                                  | Transferred to surplus .....   |              |            |
| 45.                                   | Surplus adjustments:   |              |            |
| 45.1                                  | Paid in .....  | (29,239)     | 0          |
| 45.2                                  | Transferred to capital (Stock Dividend) .....                          |              |            |
| 45.3                                  | Transferred from capital .....   |              |            |
| 46.                                   | Dividends to stockholders .....  | (750,000)    |            |
| 47.                                   | Aggregate write-ins for gains or (losses) in surplus .....             | (715,562)    |            |
| 48.                                   | Net change in capital and surplus (Lines 34 to 47) .....               | 6,483,561    | 3,873,021  |
| 49.                                   | Capital and surplus end of reporting year (Line 33 plus 48) .....      | 15,003,834   | 8,520,273  |
| DETAILS OF WRITE-INS                  |  |              |            |
| 4701.                                 | Repurchase of Stock .....  | (715,562)    |            |
| 4702                                  | .....  |              |            |
| 4703                                  | .....  |              |            |
| 4798.                                 | Summary of remaining write-ins for Line 47 from overflow page .....    |              |            |
| 4799.                                 | TOTALS (Lines 4701 through 4703 plus 4798) (Line 47 above) .....       | (715,562)    |            |

CASH FLOW

|   |   | 1            | 2          |
|---|---|--------------|------------|
|   |   | Current Year | Prior Year |
| Cash from Operations                              |   |              |            |
| 1.  | Premiums collected net of reinsurance .....   | 97,918,564   | 64,563,007 |
| 2.  | Net investment income .....   | 145,117      | 236,894    |
| 3.  | Miscellaneous income .....  | (2,233,545)  | 115,128    |
| 4.  | Total (Lines 1 through 3) .....   | 95,830,136   | 64,915,029 |
| 5.  | Benefit and loss related payments .....   | 70,317,264   | 51,061,384 |
| 6.  | Net transfers to Separate, Segregated and Protected Cell Accounts .....                                     |              |            |
| 7.  | Commissions, expenses paid and aggregate write-ins for deductions .....                                     | 8,352,602    | 6,559,990  |
| 8.  | Dividends paid to policyholders .....   |              |            |
| 9.  | Federal and foreign income taxes paid (recovered) \$...... net tax on capital gains (losses) .....          | 2,933,724    | 2,058,509  |
| 10.   | Total (Lines 5 through 9) .....   | 81,603,590   | 59,679,883 |
| 11.   | Net cash from operations (Lines 4 minus 10) .....   | 14,226,546   | 5,235,146  |
| Cash from Investments                             |   |              |            |
| 12.   | Proceeds from investments sold, matured or repaid:  |              |            |
| 12.1  | Bonds .....   | 454,772      |            |
| 12.2  | Stocks .....  |              |            |
| 12.3  | Mortgage loans .....  |              |            |
| 12.4  | Real estate .....   |              |            |
| 12.5  | Other invested assets .....   |              |            |
| 12.6  | Net gains or (losses) on cash and short-term investments .....  |              |            |
| 12.7  | Miscellaneous proceeds .....  |              |            |
| 12.8  | Total investment proceeds (Lines 12.1 to 12.7) .....  | 454,772      |            |
| 13.   | Cost of investments acquired (long-term only):  |              |            |
| 13.1  | Bonds .....   | 4,486,344    |            |
| 13.2  | Stocks .....  | 444,840      |            |
| 13.3  | Mortgage loans .....  |              |            |
| 13.4  | Real estate .....   | 630,063      | 90,568     |
| 13.5  | Other invested assets .....   | 1,000,000    |            |
| 13.6  | Miscellaneous applications .....  |              |            |
| 13.7  | Total investments acquired (Lines 13.1 to 13.6) .....   | 6,561,247    | 90,568     |
| 14.   | Net increase (or decrease) in policy loans and premium notes .....  |              |            |
| 15.   | Net cash from investments (Line 12.8 minus Line 13.7 minus Line 14) .....                                   | (6,106,475)  | (90,568)   |
| Cash from Financing and Miscellaneous Sources     |   |              |            |
| 16.   | Cash provided (applied):  |              |            |
| 16.1  | Surplus notes, capital notes .....  |              |            |
| 16.2  | Capital and paid in surplus, less treasury stock .....  | (34,438)     |            |
| 16.3  | Borrowed funds received .....   |              |            |
| 16.4  | Net deposits on deposit-type contracts and other insurance liabilities .....                                |              |            |
| 16.5  | Dividends to stockholders .....   | 750,000      |            |
| 16.6  | Other cash provided (applied) .....   | (1,366,536)  | (254,610)  |
| 17.   | Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6) ..... | (2,150,974)  | (254,610)  |
| RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS |   |              |            |
| 18.   | Net change in cash and short-term investments (Line 11, plus Line 15, plus Line 17) .....                   | 5,969,097    | 4,889,968  |
| 19.   | Cash and short-term investments:  |              |            |
| 19.1  | Beginning of year .....   | 16,636,445   | 11,746,477 |
| 19.2  | End of year (Line 18 plus Line 19.1) .....  | 22,605,542   | 16,636,445 |

**ANALYSIS OF OPERATIONS BY LINES OF BUSINESS**  
**(Gain and Loss Exhibit)**

7

|                      |   | 1           | 2   | 3                      | 4              | 5              | 6   | 7                           | 8                         | 9            | 10                   | 11                    | 12              | 13                  |
|----------------------|---|-------------|---|------------------------|----------------|----------------|---|-----------------------------|---------------------------|--------------|----------------------|-----------------------|-----------------|---------------------|
|                      |   | Total       | Comprehensive<br>(Hospital<br>&<br>Medical) | Medicare<br>Supplement | Dental<br>Only | Vision<br>Only | Federal<br>Employee<br>Health<br>Benefit Plan | Title<br>XVIII-<br>Medicare | Title<br>XIX-<br>Medicaid | Stop<br>Loss | Disability<br>Income | Long-<br>term<br>Care | Other<br>Health | Other<br>Non-Health |
| 1.                   | Net premium income .....  | 97,918,564  |   |                        |                |                |   |                             | 97,918,564                |              |                      |                       |                 |                     |
| 2.                   | Change in unearned premium reserves and reserve for rate credit ..... |             |   |                        |                |                |   |                             |                           |              |                      |                       |                 |                     |
| 3.                   | Fee-for-service (net of \$..... medical expenses) .....               |             |   |                        |                |                |   |                             |                           |              |                      |                       |                 | X X X .....         |
| 4.                   | Risk revenue .....  |             |   |                        |                |                |   |                             |                           |              |                      |                       |                 | X X X .....         |
| 5.                   | Aggregate write-ins for other health care related revenues .....      | (3,570,168) |   |                        |                |                |   |                             | (3,570,168)               |              |                      |                       |                 | X X X .....         |
| 6.                   | Aggregate write-ins for other non-health care related revenues .....  |             | X X X .....                                 | X X X .....            | X X X .....    | X X X .....    | X X X .....                                   | X X X .....                 | X X X .....               | X X X .....  | X X X .....          | X X X .....           | X X X .....     |                     |
| 7.                   | TOTAL revenues (Lines 1 to 6) .....                                   | 94,348,396  |   |                        |                |                |   |                             | 94,348,396                |              |                      |                       |                 |                     |
| 8.                   | Hospital/medical benefits .....                                       | 47,273,631  |   |                        |                |                |   |                             | 47,273,631                |              |                      |                       |                 | X X X .....         |
| 9.                   | Other professional services .....                                     | 514,229     |   |                        |                |                |   |                             | 514,229                   |              |                      |                       |                 | X X X .....         |
| 10.                  | Outside referrals .....   | 5,390,706   |   |                        |                |                |   |                             | 5,390,706                 |              |                      |                       |                 | X X X .....         |
| 11.                  | Emergency room and out-of-area .....                                  | 2,987,796   |   |                        |                |                |   |                             | 2,987,796                 |              |                      |                       |                 | X X X .....         |
| 12.                  | Prescription drugs .....  | 16,831,597  |   |                        |                |                |   |                             | 16,831,597                |              |                      |                       |                 | X X X .....         |
| 13.                  | Aggregate write-ins for other hospital and medical .....              | 64,347      |   |                        |                |                |   |                             | 64,347                    |              |                      |                       |                 | X X X .....         |
| 14.                  | Incentive pool, withhold adjustments and bonus amounts .....          | 639,099     |   |                        |                |                |   |                             | 639,099                   |              |                      |                       |                 | X X X .....         |
| 15.                  | Subtotal (Lines 8 to 14) .....  | 73,701,405  |   |                        |                |                |   |                             | 73,701,405                |              |                      |                       |                 | X X X .....         |
| 16.                  | Net reinsurance recoveries .....                                      | 402,288     |   |                        |                |                |   |                             | 402,288                   |              |                      |                       |                 | X X X .....         |
| 17.                  | TOTAL hospital and medical (Lines 15 minus 16) .....                  | 73,299,117  |   |                        |                |                |   |                             | 73,299,117                |              |                      |                       |                 | X X X .....         |
| 18.                  | Non-health claims (net) .....   |             | X X X .....                                 | X X X .....            | X X X .....    | X X X .....    | X X X .....                                   | X X X .....                 | X X X .....               | X X X .....  | X X X .....          | X X X .....           | X X X .....     |                     |
| 19.                  | Claims adjustment expenses .....                                      | 824,833     |   |                        |                |                |   |                             | 824,833                   |              |                      |                       |                 |                     |
| 20.                  | General administrative expenses .....                                 | 7,926,421   |   |                        |                |                |   |                             | 7,926,421                 |              |                      |                       |                 |                     |
| 21.                  | Increase in reserves for accident and health contracts .....          |             |   |                        |                |                |   |                             |                           |              |                      |                       |                 | X X X .....         |
| 22.                  | Increase in reserves for life contracts .....                         |             | X X X .....                                 | X X X .....            | X X X .....    | X X X .....    | X X X .....                                   | X X X .....                 | X X X .....               | X X X .....  | X X X .....          | X X X .....           | X X X .....     |                     |
| 23.                  | TOTAL underwriting deductions (Lines 17 to 22) .....                  | 82,050,371  |   |                        |                |                |   |                             | 82,050,371                |              |                      |                       |                 |                     |
| 24.                  | Net underwriting gain or (loss) (Line 7 minus Line 23) .....          | 12,298,025  |   |                        |                |                |   |                             | 12,298,025                |              |                      |                       |                 |                     |
| DETAILS OF WRITE-INS |   |             |   |                        |                |                |   |                             |                           |              |                      |                       |                 |                     |
| 0501.                | Quality Assessment Program .....                                      | (3,570,168) |   |                        |                |                |   |                             | (3,570,168)               |              |                      |                       |                 | X X X .....         |
| 0502                 | .....   |             |   |                        |                |                |   |                             |                           |              |                      |                       |                 | X X X .....         |
| 0503                 | .....   |             |   |                        |                |                |   |                             |                           |              |                      |                       |                 | X X X .....         |
| 0598.                | Summary of remaining write-ins for Line 5 from overflow page .....    |             |   |                        |                |                |   |                             |                           |              |                      |                       |                 | X X X .....         |
| 0599.                | TOTALS (Lines 0501 through 0503 plus 0598) (Line 5 above) .....       | (3,570,168) |   |                        |                |                |   |                             | (3,570,168)               |              |                      |                       |                 | X X X .....         |
| 0601.                | 0 .....   |             | X X X .....                                 | X X X .....            | X X X .....    | X X X .....    | X X X .....                                   | X X X .....                 | X X X .....               | X X X .....  | X X X .....          | X X X .....           | X X X .....     |                     |
| 0602                 | .....   |             | X X X .....                                 | X X X .....            | X X X .....    | X X X .....    | X X X .....                                   | X X X .....                 | X X X .....               | X X X .....  | X X X .....          | X X X .....           | X X X .....     |                     |
| 0603                 | .....   |             | X X X .....                                 | X X X .....            | X X X .....    | X X X .....    | X X X .....                                   | X X X .....                 | X X X .....               | X X X .....  | X X X .....          | X X X .....           | X X X .....     |                     |
| 0698.                | Summary of remaining write-ins for Line 6 from overflow page .....    |             | X X X .....                                 | X X X .....            | X X X .....    | X X X .....    | X X X .....                                   | X X X .....                 | X X X .....               | X X X .....  | X X X .....          | X X X .....           | X X X .....     |                     |
| 0699.                | TOTALS (Lines 0601 through 0603 plus 0698) (Line 6 above) .....       |             | X X X .....                                 | X X X .....            | X X X .....    | X X X .....    | X X X .....                                   | X X X .....                 | X X X .....               | X X X .....  | X X X .....          | X X X .....           | X X X .....     |                     |
| 1301.                | Hearing/Speech Devices .....  | 64,347      |   |                        |                |                |   |                             | 64,347                    |              |                      |                       |                 | X X X .....         |
| 1302                 | .....   |             |   |                        |                |                |   |                             |                           |              |                      |                       |                 | X X X .....         |
| 1303                 | .....   |             |   |                        |                |                |   |                             |                           |              |                      |                       |                 | X X X .....         |
| 1398.                | Summary of remaining write-ins for Line 13 from overflow page .....   |             |   |                        |                |                |   |                             |                           |              |                      |                       |                 | X X X .....         |
| 1399.                | TOTALS (Lines 1301 through 1303 plus 1398) (Line 13 above) .....      | 64,347      |   |                        |                |                |   |                             | 64,347                    |              |                      |                       |                 | X X X .....         |

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 1 - PREMIUMS**

|                  |   | 1                  | 2                      | 3                    | 4   |
|------------------|---|--------------------|------------------------|----------------------|---|
| Line of Business |   | Direct<br>Business | Reinsurance<br>Assumed | Reinsurance<br>Ceded | Net Premium<br>Income<br>(Columns<br>1 + 2 - 3) |
| 1.               | Comprehensive (hospital and medical) .....  | .....              | .....                  | .....                | .....   |
| 2.               | Medicare Supplement .....                   | .....              | .....                  | .....                | .....   |
| 3.               | Dental only .....                           | .....              | .....                  | .....                | .....   |
| 4.               | Vision only .....                           | .....              | .....                  | .....                | .....   |
| 5.               | Federal Employee Health Benefits Plan ..... | .....              | .....                  | .....                | .....   |
| 6.               | Title XVIII - Medicare .....                | .....              | .....                  | .....                | .....   |
| 7.               | Title XIX - Medicaid .....                  | 98,439,672         | .....                  | 521,108              | 97,918,564                                      |
| 8.               | Stop loss .....                             | .....              | .....                  | .....                | .....   |
| 9.               | Disability income .....                     | .....              | .....                  | .....                | .....   |
| 10.              | Long-term care .....                        | .....              | .....                  | .....                | .....   |
| 11.              | Other health .....                          | .....              | .....                  | .....                | .....   |
| 12.              | Health subtotal (Lines 1 through 11) .....  | 98,439,672         | .....                  | 521,108              | 97,918,564                                      |
| 13.              | Life .....                                  | .....              | .....                  | .....                | .....   |
| 14.              | Property/casualty .....                     | .....              | .....                  | .....                | .....   |
| 15.              | TOTALS (Lines 12 to 14) .....               | 98,439,672         | .....                  | 521,108              | 97,918,564                                      |



**UNDERWRITING AND INVESTMENT EXHIBIT**

**PART 2 - Claims Incurred During the Year**

|     |   | 1          | 2  | 3                      | 4              | 5              | 6   | 7                          | 8                        | 9            | 10                   | 11                | 12              | 13                  |
|-----|---|------------|--|------------------------|----------------|----------------|---|----------------------------|--------------------------|--------------|----------------------|-------------------|-----------------|---------------------|
|     |   | Total      | Comprehensive<br>(Hospital<br>& Medical) | Medicare<br>Supplement | Dental<br>Only | Vision<br>Only | Federal<br>Employees<br>Health<br>Benefits Plan | Title<br>XVIII<br>Medicare | Title<br>XIX<br>Medicaid | Stop<br>Loss | Disability<br>Income | Long-Term<br>Care | Other<br>Health | Other<br>Non-Health |
| 1.  | Payments during the year:   |            |  |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
|     | 1.1 Direct .....  | 70,335,378 |  |                        |                |                |   |                            | 70,335,378               |              |                      |                   |                 |                     |
|     | 1.2 Reinsurance assumed .....                                       |            |  |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
|     | 1.3 Reinsurance ceded .....   | 472,021    |  |                        |                |                |   |                            | 472,021                  |              |                      |                   |                 |                     |
|     | 1.4 Net .....   | 69,863,357 |  |                        |                |                |   |                            | 69,863,357               |              |                      |                   |                 |                     |
| 2.  | Paid medical incentive pools and bonuses .....                      | 453,908    |  |                        |                |                |   |                            | 453,908                  |              |                      |                   |                 |                     |
| 3.  | Claim liability December 31, current year from Part 2A:             |            |  |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
|     | 3.1 Direct .....  | 11,310,442 |  |                        |                |                |   |                            | 11,310,442               |              |                      |                   |                 |                     |
|     | 3.2 Reinsurance assumed .....                                       |            |  |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
|     | 3.3 Reinsurance ceded .....   |            |  |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
|     | 3.4 Net .....   | 11,310,442 |  |                        |                |                |   |                            | 11,310,442               |              |                      |                   |                 |                     |
| 4.  | Claim reserve December 31, current year from Part 2D:               |            |  |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
|     | 4.1 Direct .....  |            |  |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
|     | 4.2 Reinsurance assumed .....                                       |            |  |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
|     | 4.3 Reinsurance ceded .....   |            |  |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
|     | 4.4 Net .....   |            |  |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
| 5.  | Accrued medical incentive pools and bonuses, current year .....     | 274,691    |  |                        |                |                |   |                            | 274,691                  |              |                      |                   |                 |                     |
| 6.  | Amounts recoverable from reinsurers December 31, current year ..... |            |  |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
| 7.  | Claim liability December 31, prior year from Part 2A:               |            |  |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
|     | 7.1 Direct .....  | 8,583,514  |  |                        |                |                |   |                            | 8,583,514                |              |                      |                   |                 |                     |
|     | 7.2 Reinsurance assumed .....                                       |            |  |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
|     | 7.3 Reinsurance ceded .....   |            |  |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
|     | 7.4 Net .....   | 8,583,514  |  |                        |                |                |   |                            | 8,583,514                |              |                      |                   |                 |                     |
| 8.  | Claim reserve December 31, prior year from Part 2D:                 |            |  |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
|     | 8.1 Direct .....  |            |  |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
|     | 8.2 Reinsurance assumed .....                                       |            |  |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
|     | 8.3 Reinsurance ceded .....   |            |  |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
|     | 8.4 Net .....   |            |  |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
| 9.  | Accrued medical incentive pools and bonuses, prior year .....       | 89,500     |  |                        |                |                |   |                            | 89,500                   |              |                      |                   |                 |                     |
| 10. | Amounts recoverable from reinsurers December 31, prior year .....   | 69,733     |  |                        |                |                |   |                            | 69,733                   |              |                      |                   |                 |                     |
| 11. | Incurred benefits:  |            |  |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
|     | 11.1 Direct .....   | 73,062,306 |  |                        |                |                |   |                            | 73,062,306               |              |                      |                   |                 |                     |
|     | 11.2 Reinsurance assumed .....                                      |            |  |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
|     | 11.3 Reinsurance ceded .....  | 402,288    |  |                        |                |                |   |                            | 402,288                  |              |                      |                   |                 |                     |
|     | 11.4 Net .....  | 72,660,018 |  |                        |                |                |   |                            | 72,660,018               |              |                      |                   |                 |                     |
| 12. | Incurred medical incentive pools and bonuses .....                  | 639,099    |  |                        |                |                |   |                            | 639,099                  |              |                      |                   |                 |                     |

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2A - Claims Liability End of Current Year**

|    |  | 1          | 2   | 3                      | 4              | 5              | 6   | 7                          | 8                        | 9            | 10                   | 11                | 12              | 13                  |
|----|--|------------|---|------------------------|----------------|----------------|---|----------------------------|--------------------------|--------------|----------------------|-------------------|-----------------|---------------------|
|    |  | Total      | Compre-<br>hensive<br>(Hospital<br>& Medical) | Medicare<br>Supplement | Dental<br>Only | Vision<br>Only | Federal<br>Employees<br>Health<br>Benefits Plan | Title<br>XVIII<br>Medicare | Title<br>XIX<br>Medicaid | Stop<br>Loss | Disability<br>Income | Long-Term<br>Care | Other<br>Health | Other<br>Non-Health |
| 1. | Reported in Process of Adjustment:                 |            |   |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
|    | 1.1 Direct .....                                   |            |   |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
|    | 1.2 Reinsurance assumed .....                      |            |   |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
|    | 1.3 Reinsurance ceded .....                        |            |   |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
|    | 1.4 Net .....                                      |            |   |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
| 2. | Incurred but Unreported:                           |            |   |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
|    | 2.1 Direct .....                                   | 11,310,442 |   |                        |                |                |   |                            | 11,310,442               |              |                      |                   |                 |                     |
|    | 2.2 Reinsurance assumed .....                      |            |   |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
|    | 2.3 Reinsurance ceded .....                        |            |   |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
|    | 2.4 Net .....                                      | 11,310,442 |   |                        |                |                |   |                            | 11,310,442               |              |                      |                   |                 |                     |
| 3. | Amounts Withheld from Paid Claims and Capitations: |            |   |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
|    | 3.1 Direct .....                                   |            |   |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
|    | 3.2 Reinsurance assumed .....                      |            |   |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
|    | 3.3 Reinsurance ceded .....                        |            |   |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
|    | 3.4 Net .....                                      |            |   |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
| 4. | TOTALS   |            |   |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
|    | 4.1 Direct .....                                   | 11,310,442 |   |                        |                |                |   |                            | 11,310,442               |              |                      |                   |                 |                     |
|    | 4.2 Reinsurance assumed .....                      |            |   |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
|    | 4.3 Reinsurance ceded .....                        |            |   |                        |                |                |   |                            |                          |              |                      |                   |                 |                     |
|    | 4.4 Net .....                                      | 11,310,442 |   |                        |                |                |   |                            | 11,310,442               |              |                      |                   |                 |                     |

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2B - ANALYSIS OF CLAIMS UNPAID-PRIOR YEAR-NET OF REINSURANCE**

|                        |  | Claims<br>Paid During the Year                                      |  | Claim Reserve and Claim<br>Liability December 31<br>of Current Year |  | 5<br><br>Claims Incurred<br>in Prior Years<br>(Columns 1 + 3) | 6<br><br>Estimated Claim<br>Reserve and<br>Claim Liability<br>December 31 of<br>Prior Year |
|------------------------|--|---|--|---|--|---|--|
|                        |  | 1<br>On<br>Claims Incurred<br>Prior to January 1<br>of Current Year | 2<br>On<br>Claims Incurred<br>During the<br>Year | 3<br>On Claims Unpaid<br>December 31 of<br>Prior Year               | 4<br>On<br>Claims Incurred<br>During the<br>Year |   |  |
| Line<br>of<br>Business |  |   |  |   |  |   |  |
| 1.                     | Comprehensive (hospital and medical) .....     | .....   | .....  | .....   | .....  | .....   | .....  |
| 2.                     | Medicare Supplement .....                      | .....   | .....  | .....   | .....  | .....   | .....  |
| 3.                     | Dental only .....                              | .....   | .....  | .....   | .....  | .....   | .....  |
| 4.                     | Vision only .....                              | .....   | .....  | .....   | .....  | .....   | .....  |
| 5.                     | Federal Employees Health Benefits Plan .....   | .....   | .....  | .....   | .....  | .....   | .....  |
| 6.                     | Title XVIII - Medicare .....                   | .....   | .....  | .....   | .....  | .....   | .....  |
| 7.                     | Title XIX - Medicaid .....                     | 6,590,776   | 63,342,314                                       | 57,946  | 11,252,496                                       | 6,648,722   | 8,583,514  |
| 8.                     | Other health .....                             | .....   | .....  | .....   | .....  | .....   | .....  |
| 9.                     | Health subtotal (Lines 1 to 8) .....           | 6,590,776   | 63,342,314                                       | 57,946  | 11,252,496                                       | 6,648,722   | 8,583,514  |
| 10.                    | Other non-health .....                         | .....   | .....  | .....   | .....  | .....   | .....  |
| 11.                    | Medical incentive pool and bonus amounts ..... | 69,248  | 384,660  | .....   | 274,691  | 69,248  | 89,500   |
| 12.                    | TOTALS (Lines 9 to 11) .....                   | 6,660,024   | 63,726,974                                       | 57,946  | 11,527,187                                       | 6,717,970   | 8,673,014  |

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS (000 Omitted)

Grand Total

Section A - Paid Health Claims

| Year in Which Losses<br>Were Incurred |             | Cumulative Net Amounts Paid |           |           |           |           |
|---------------------------------------|-------------|-----------------------------|-----------|-----------|-----------|-----------|
|                                       |             | 1<br>1999                   | 2<br>2000 | 3<br>2001 | 4<br>2002 | 5<br>2003 |
| 1.                                    | Prior ..... | 343                         |           |           |           |           |
| 2.                                    | 1999 .....  | 10,684                      | 2,969     | 33        | 1         |           |
| 3.                                    | 2000 .....  | X X X                       | 24,582    | 5,185     | 8         |           |
| 4.                                    | 2001 .....  | X X X                       | X X X     | 32,767    | 4,641     | 12        |
| 5.                                    | 2002 .....  | X X X                       | X X X     | X X X     | 45,448    | 6,648     |
| 6.                                    | 2003 .....  | X X X                       | X X X     | X X X     | X X X     | 63,727    |

Section B - Incurred Health Claims

| Year in Which Losses<br>Were Incurred |             | Sum of Cumulative Net Amount Paid and Claim Liability and Reserve Outstanding at End of Year |           |           |           |           |
|---------------------------------------|-------------|--|-----------|-----------|-----------|-----------|
|                                       |             | 1<br>1999  | 2<br>2000 | 3<br>2001 | 4<br>2002 | 5<br>2003 |
| 1.                                    | Prior ..... | 343  |           |           |           |           |
| 2.                                    | 1999 .....  | 13,593   | 2,969     | 33        | 1         |           |
| 3.                                    | 2000 .....  | X X X  | 30,711    | 5,219     | 8         |           |
| 4.                                    | 2001 .....  | X X X  | X X X     | 39,680    | 4,716     | 12        |
| 5.                                    | 2002 .....  | X X X  | X X X     | X X X     | 54,046    | 6,706     |
| 6.                                    | 2003 .....  | X X X  | X X X     | X X X     | X X X     | 75,254    |

Section C - Incurred Year Health Claims and Claims Adjustment Expense Ratio

| Years in Which<br>Premiums were<br>Earned and Claims<br>were Incurred |                                 | 1                  | 2                  | 3  | 4                     | 5  | 6                     | 7                | 8                                       | 9  | 10                    |
|---|---------------------------------|--------------------|--------------------|--|-----------------------|--|-----------------------|------------------|---|--|-----------------------|
|   |                                 | Premiums<br>Earned | Claims<br>Payments | Claim<br>Adjustment<br>Expense<br>Payments | (Col. 3/2)<br>Percent | Claim and<br>Claim Adjustment<br>Expense<br>Payments<br>(Col. 2 + 3) | (Col. 5/1)<br>Percent | Claims<br>Unpaid | Unpaid Claims<br>Adjustment<br>Expenses | Total Claims<br>and Claims<br>Adjustment<br>Expense Incurred<br>(Col. 5 + 7 + 8) | (Col. 9/1)<br>Percent |
| 1.  | Prior to 1999 .....             | X X X              |                    |  | X X X                 |  | X X X                 |                  |   |  | X X X                 |
| 2.  | 1999 .....                      | 15,342             | 13,687             |  |                       | 13,687   | 89.213                |                  |   | 13,687   | 89.213                |
| 3.  | 2000 .....                      | 33,971             | 29,775             |  |                       | 29,775   | 87.648                |                  |   | 29,775   | 87.648                |
| 4.  | 2001 .....                      | 49,300             | 37,420             | 380  | 1.015                 | 37,800   | 76.673                |                  |   | 37,800   | 76.673                |
| 5.  | 2002 .....                      | 64,563             | 52,096             | 554  | 1.063                 | 52,650   | 81.548                | 58               | 1                                       | 52,709   | 81.640                |
| 6.  | 2003 .....                      | 97,919             | 63,727             | 755  | 1.185                 | 64,482   | 65.852                | 11,527           | 273                                     | 76,282   | 77.903                |
| 7.  | TOTAL (Lines 1 through 6) ..... | X X X              | 196,705            | 1,689                                      | X X X                 | 198,394  | X X X                 | 11,585           | 274                                     | 210,253  | X X X                 |
| 8.  | TOTAL (Lines 2 through 6) ..... | 261,095            | X X X              | X X X                                      | X X X                 | X X X  | X X X                 | X X X            | X X X                                   | X X X  | X X X                 |

12 Total

|    |   |      |
|----|---|------|
| 12 | Underwriting Invest Exh Pt 2C Sn A - Paid Claims - Hospital and Medical. . . .    | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn B - Incur. Claims - Hospital and Medical. . . .  | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn C - Expns Ratios - Hospital and Medical. . . .   | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn A - Paid Claims - Medicare Supplement . . . .    | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn B - Incur. Claims - Medicare Supplement . . .    | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn C - Expns Ratios - Medicare Supplement . . .     | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn A - Paid Claims - Dental Only. . . . .           | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn B - Incur. Claims - Dental Only. . . . .         | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn C - Expns Ratios - Dental Only. . . . .          | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn A - Paid Claims - Vision Only. . . . .           | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn B - Incur. Claims - Vision Only. . . . .         | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn C - Expns Ratios - Vision Only. . . . .          | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn A - Paid Claims - Fed Emp HBPP. . . . .          | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn B - Incur. Claims - Fed Emp HBPP. . . . .        | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn C - Expns Ratios - Fed Emp HBPP. . . . .         | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn A - Paid Claims - Title XVIII-Medicare . . . . . | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn B - Incur. Claims - Title XVIII-Medicare . . . . | NONE |
| 12 | Underwriting Invest Exh Pt 2C Sn C - Expns Ratios - Title XVIII-Medicare . . . .  | NONE |

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS (000 Omitted)

Title XIX - Medicaid

Section A - Paid Health Claims

| Year in Which Losses<br>Were Incurred |             | Cumulative Net Amounts Paid |           |           |           |           |
|---------------------------------------|-------------|-----------------------------|-----------|-----------|-----------|-----------|
|                                       |             | 1<br>1999                   | 2<br>2000 | 3<br>2001 | 4<br>2002 | 5<br>2003 |
| 1.                                    | Prior ..... | 343                         |           |           |           |           |
| 2.                                    | 1999 .....  | 10,684                      | 2,969     | 33        | 1         |           |
| 3.                                    | 2000 .....  | X X X                       | 24,582    | 5,185     | 8         |           |
| 4.                                    | 2001 .....  | X X X                       | X X X     | 32,767    | 4,641     | 12        |
| 5.                                    | 2002 .....  | X X X                       | X X X     | X X X     | 45,448    | 6,648     |
| 6.                                    | 2003 .....  | X X X                       | X X X     | X X X     | X X X     | 63,727    |

Section B - Incurred Health Claims

| Year in Which Losses<br>Were Incurred |             | Sum of Cumulative Net Amount Paid and Claim Liability and Reserve Outstanding at End of Year |           |           |           |           |
|---------------------------------------|-------------|--|-----------|-----------|-----------|-----------|
|                                       |             | 1<br>1999  | 2<br>2000 | 3<br>2001 | 4<br>2002 | 5<br>2003 |
| 1.                                    | Prior ..... | 343  |           |           |           |           |
| 2.                                    | 1999 .....  | 13,593   | 2,969     | 33        | 1         |           |
| 3.                                    | 2000 .....  | X X X  | 30,711    | 5,219     | 8         |           |
| 4.                                    | 2001 .....  | X X X  | X X X     | 39,680    | 4,716     | 12        |
| 5.                                    | 2002 .....  | X X X  | X X X     | X X X     | 54,046    | 6,706     |
| 6.                                    | 2003 .....  | X X X  | X X X     | X X X     | X X X     | 75,254    |

Section C - Incurred Year Health Claims and Claims Adjustment Expense Ratio

| Years in Which<br>Premiums were<br>Earned and Claims<br>were Incurred |                                 | 1                  | 2                  | 3  | 4                     | 5  | 6                     | 7                | 8                                       | 9  | 10                    |
|---|---------------------------------|--------------------|--------------------|--|-----------------------|--|-----------------------|------------------|---|--|-----------------------|
|   |                                 | Premiums<br>Earned | Claims<br>Payments | Claim<br>Adjustment<br>Expense<br>Payments | (Col. 3/2)<br>Percent | Claim and<br>Claim Adjustment<br>Expense<br>Payments<br>(Col. 2 + 3) | (Col. 5/1)<br>Percent | Claims<br>Unpaid | Unpaid Claims<br>Adjustment<br>Expenses | Total Claims<br>and Claims<br>Adjustment<br>Expense Incurred<br>(Col. 5 + 7 + 8) | (Col. 9/1)<br>Percent |
| 1.  | Prior to 1999 .....             | X X X              |                    |  | X X X                 |  | X X X                 |                  |   |  | X X X                 |
| 2.  | 1999 .....                      | 15,342             | 13,687             |  |                       | 13,687   | 89.213                |                  |   | 13,687   | 89.213                |
| 3.  | 2000 .....                      | 33,971             | 29,775             |  |                       | 29,775   | 87.648                |                  |   | 29,775   | 87.648                |
| 4.  | 2001 .....                      | 49,300             | 37,420             | 380  | 1.015                 | 37,800   | 76.673                |                  |   | 37,800   | 76.673                |
| 5.  | 2002 .....                      | 64,563             | 52,096             | 554  | 1.063                 | 52,650   | 81.548                | 58               | 1                                       | 52,709   | 81.640                |
| 6.  | 2003 .....                      | 97,919             | 63,727             | 755  | 1.185                 | 64,482   | 65.852                | 11,527           | 273                                     | 76,282   | 77.903                |
| 7.  | TOTAL (Lines 1 through 6) ..... | X X X              | 196,705            | 1,689                                      | X X X                 | 198,394  | X X X                 | 11,585           | 274                                     | 210,253  | X X X                 |
| 8.  | TOTAL (Lines 2 through 6) ..... | 261,095            | X X X              | X X X                                      | X X X                 | X X X  | X X X                 | X X X            | X X X                                   | X X X  | X X X                 |

**12      Underwriting Invest Exh Pt 2C Sn A - Paid Claims - Other . . . . . NONE**

**12      Underwriting Invest Exh Pt 2C Sn B - Incur Claims - Other . . . . . NONE**

**12      Underwriting Invest Exh Pt 2C Sn C - Expns Ratios - Other . . . . . NONE**

**13      Underwriting Invest Exh Pt 2D - A & H Reserve - . . . . . NONE**

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 3 - ANALYSIS OF EXPENSES**

|   | 1                               | 2                                     | 3                      | 4             |
|---|---------------------------------|---------------------------------------|------------------------|---------------|
|   | Claim<br>Adjustment<br>Expenses | General<br>Administrative<br>Expenses | Investment<br>Expenses | Total         |
| 1. Rent (\$..... for occupancy of own building) .....   | 32,568                          | 138,844                               |                        | 171,412       |
| 2. Salaries, wages and other benefits .....   | 611,212                         | 4,518,213                             |                        | 5,129,425     |
| 3. Commissions (less \$..... ceded plus \$..... assumed) ...                                  |                                 |                                       |                        |               |
| 4. Legal fees and expenses .....  |                                 | 80,481                                |                        | 80,481        |
| 5. Certifications and accreditation fees .....  |                                 |                                       |                        |               |
| 6. Auditing, actuarial and other consulting services .....                                    | 149,852                         | 534,671                               | 26,751                 | 711,274       |
| 7. Traveling expenses .....   | 1,870                           | 153,303                               |                        | 155,173       |
| 8. Marketing and advertising .....  |                                 | 31,998                                |                        | 31,998        |
| 9. Postage, express and telephone .....   | 25,258                          | 305,262                               |                        | 330,520       |
| 10. Printing and office supplies .....  | 2,403                           | 296,622                               |                        | 299,025       |
| 11. Occupancy, depreciation and amortization .....  |                                 | 123,202                               | 40,299                 | 163,501       |
| 12. Equipment .....   |                                 | 105,484                               |                        | 105,484       |
| 13. Cost or depreciation of EDP equipment and software .....                                  |                                 | 260,366                               |                        | 260,366       |
| 14. Outsourced services including EDP, claims, and other services .....                       |                                 | 434,934                               |                        | 434,934       |
| 15. Boards, bureaus and association fees .....  | 1,669                           | 93,236                                |                        | 94,905        |
| 16. Insurance, except on real estate .....  |                                 | 93,636                                |                        | 93,636        |
| 17. Collection and bank service charges .....   |                                 | 25,319                                |                        | 25,319        |
| 18. Group service and administration fees .....   |                                 | 42,000                                |                        | 42,000        |
| 19. Reimbursements by uninsured accident and health plans .....                               |                                 |                                       |                        |               |
| 20. Reimbursements from fiscal intermediaries .....   |                                 |                                       |                        |               |
| 21. Real estate expenses .....  |                                 |                                       |                        |               |
| 22. Real estate taxes .....   |                                 | 11,771                                |                        | 11,771        |
| 23. Taxes, licenses and fees:   |                                 |                                       |                        |               |
| 23.1 State and local insurance taxes .....  |                                 | 343,020                               |                        | 343,020       |
| 23.2 State premium taxes .....  |                                 |                                       |                        |               |
| 23.3 Regulator authority licenses and fees .....  |                                 | 12,527                                |                        | 12,527        |
| 23.4 Payroll taxes .....  |                                 | 317,831                               |                        | 317,831       |
| 23.5 Other (excluding federal income and real estate taxes) .....                             |                                 |                                       |                        |               |
| 24. Investment expenses not included elsewhere .....  |                                 |                                       |                        |               |
| 25. Aggregate write-ins for expenses .....  |                                 | 3,700                                 |                        | 3,700         |
| 26. Total expenses incurred (Lines 1 to 25) .....   | 824,833                         | 7,926,420                             | 67,050                 | (a) 8,818,303 |
| 27. Less expenses unpaid December 31, current year .....                                      | 274,141                         | 533,982                               |                        | 808,123       |
| 28. Add expenses unpaid December 31, prior year .....   | 204,240                         | 473,796                               |                        | 678,036       |
| 29. Amounts receivable relating to uninsured accident and health<br>plans, prior year .....   |                                 |                                       |                        |               |
| 30. Amounts receivable relating to uninsured accident and health<br>plans, current year ..... |                                 |                                       |                        |               |
| 31. Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30) .                        | 754,932                         | 7,866,234                             | 67,050                 | 8,688,216     |
| <b>DETAILS OF WRITE-INS</b>   |                                 |                                       |                        |               |
| 2501. IRS Penalty .....   |                                 | 3,700                                 |                        | 3,700         |
| 2502 .....  |                                 |                                       |                        |               |
| 2503 .....  |                                 |                                       |                        |               |
| 2598. Summary of remaining write-ins for Line 25 from overflow page .....                     |                                 |                                       |                        |               |
| 2599. Totals (Lines 2501 through 2503 + 2598)(Line 25 above) .....                            |                                 | 3,700                                 |                        | 3,700         |

(a) Includes management fees of \$..... to affiliates and \$..... to non-affiliates.



EXHIBIT OF NET INVESTMENT INCOME

|                      |   | 1                        | 2                     |
|----------------------|---|--------------------------|-----------------------|
|                      |   | Collected<br>During Year | Earned<br>During Year |
| 1.                   | U.S. Government bonds .....   | (a)..... 17,499          | ..... 21,122          |
| 1.1                  | Bonds exempt from U.S. tax .....  | (a)..... 27,564          | ..... 47,868          |
| 1.2                  | Other bonds (unaffiliated) .....  | (a)..... 8,595           | ..... 23,597          |
| 1.3                  | Bonds of affiliates .....   | (a).....                 | .....                 |
| 2.1                  | Preferred stocks (unaffiliated) .....                                     | (b)..... 6,677           | ..... 6,677           |
| 2.11                 | Preferred stocks of affiliates .....                                      | (b).....                 | .....                 |
| 2.2                  | Common stocks (unaffiliated) .....  | .....                    | .....                 |
| 2.21                 | Common stocks of affiliates .....   | .....                    | .....                 |
| 3.                   | Mortgage loans .....  | (c).....                 | .....                 |
| 4.                   | Real estate .....   | (d).....                 | .....                 |
| 5.                   | Contract loans .....  | .....                    | .....                 |
| 6.                   | Cash/short-term investments .....   | (e)..... 152,078         | ..... 152,078         |
| 7.                   | Derivative instruments .....  | (f).....                 | .....                 |
| 8.                   | Other invested assets .....   | .....                    | .....                 |
| 9.                   | Aggregate write-ins for investment income .....                           | .....                    | .....                 |
| 10.                  | Total gross investment income .....                                       | ..... 212,413            | ..... 251,342         |
| 11.                  | Investment expenses .....   |                          | (g)..... 67,050       |
| 12.                  | Investment taxes, licenses and fees, excluding federal income taxes ..... |                          | (g).....              |
| 13.                  | Interest expense .....  |                          | (h).....              |
| 14.                  | Depreciation on real estate and other invested assets .....               |                          | (i).....              |
| 15.                  | Aggregate write-ins for deductions from investment income .....           |                          | .....                 |
| 16.                  | Total deductions (Lines 11 through 15) .....                              |                          | ..... 67,050          |
| 17.                  | Net Investment income (Line 10 minus Line 16) .....                       |                          | ..... 184,292         |
| DETAILS OF WRITE-INS |   |                          |                       |
| 0901                 | .....   | .....                    | .....                 |
| 0902                 | .....   | .....                    | .....                 |
| 0903                 | .....   | .....                    | .....                 |
| 0998.                | Summary of remaining write-ins for Line 9 from overflow page .....        | .....                    | .....                 |
| 0999.                | TOTALS (Lines 0901 through 0903 plus 0998) (Line 9, above) .....          | .....                    | .....                 |
| 1501                 | .....   | .....                    | .....                 |
| 1502                 | .....   | .....                    | .....                 |
| 1503                 | .....   | .....                    | .....                 |
| 1598.                | Summary of remaining write-ins for Line 15 from overflow page .....       | .....                    | .....                 |
| 1599.                | TOTALS (Lines 1501 through 1503 plus 1598) (Line 15, above) .....         | .....                    | .....                 |

- (a) Includes \$..... accrual of discount less \$..... amortization of premium and less \$..... paid for accrued interest on purchases.
- (b) Includes \$..... accrual of discount less \$..... amortization of premium and less \$..... paid for accrued dividends on purchases.
- (c) Includes \$..... accrual of discount less \$..... amortization of premium and less \$..... paid for accrued interest on purchases.
- (d) Includes \$..... for company's occupancy of its own buildings; and excluding \$..... interest on encumbrances.
- (e) Includes \$..... accrual of discount less \$..... amortization of premium and less \$..... paid for accrued interest on purchases.
- (f) Includes \$..... accrual of discount less \$..... amortization of premium.
- (g) Includes \$..... investment expenses and \$..... investment taxes, licenses and fees, excluding federal income taxes, attributable to segregated and Separate Accounts.
- (h) Includes \$..... interest on surplus notes and \$..... interest on capital notes.
- (i) Includes \$..... depreciation on real estate and \$..... depreciation on other invested assets.

EXHIBIT OF CAPITAL GAINS (LOSSES)

|                      |  | 1   | 2                             | 3   | 4  | 5     |
|----------------------|--|---|-------------------------------|---|--|-------|
|                      |  | Realized Gain<br>(Loss) on Sales<br>or Maturity | Other Realized<br>Adjustments | Increases<br>(Decreases) by<br>Adjustment | Net Gain (Loss)<br>from Change<br>in Difference<br>Between Basis<br>Book/Adjusted<br>Carrying and<br>Admitted Values | Total |
| 1.                   | U.S. Government bonds .....  |   |                               |   |  |       |
| 1.1                  | Bonds exempt from U.S. tax .....                                   |   |                               |   |  |       |
| 1.2                  | Other bonds (unaffiliated) .....                                   |   |                               |   |  |       |
| 1.3                  | Bonds of affiliates .....  |   |                               |   |  |       |
| 2.1                  | Preferred stocks (unaffiliated) .....                              |   |                               |   |  |       |
| 2.11                 | Preferred stocks of affiliates .....                               |   |                               |   |  |       |
| 2.2                  | Common stocks (unaffiliated) .....                                 |   |                               |   |  |       |
| 2.21                 | Common stocks of affiliates .....                                  |   |                               |   |  |       |
| 3.                   | Mortgage loans .....   |   |                               |   |  |       |
| 4.                   | Real estate .....  |   |                               |   |  |       |
| 5.                   | Contract loans .....   |   |                               |   |  |       |
| 6.                   | Cash/short-term investments .....                                  |   |                               |   |  |       |
| 7.                   | Derivative instruments .....                                       |   |                               |   |  |       |
| 8.                   | Other invested assets .....  |   |                               |   |  |       |
| 9.                   | Aggregate write-ins for capital gains (losses) .....               |   |                               |   |  |       |
| 10.                  | Total capital gains (losses) .....                                 |   |                               |   |  |       |
| DETAILS OF WRITE-INS |  |   |                               |   |  |       |
| 0901                 | .....  |   |                               |   |  |       |
| 0902                 | .....  |   |                               |   |  |       |
| 0903                 | .....  |   |                               |   |  |       |
| 0998.                | Summary of remaining write-ins for Line 9 from overflow page ..... |   |                               |   |  |       |
| 0999.                | TOTALS (Lines 0901 through 0903 plus 0998) (Line 9, above) .....   |   |                               |   |  |       |

NONE

**EXHIBIT 1 - ANALYSIS OF NONADMITTED ASSETS AND RELATED ITEMS**

|                      |  | 1<br>End<br>of<br>Current Year | 2<br>End<br>of<br>Prior Year | 3<br>Changes for Year<br>(Increase) or<br>Decrease |
|----------------------|--|--------------------------------|------------------------------|--|
| 1.                   | Summary of items Page 2, Lines 12 to 20, Column 2 .....            | 195,237                        | 238,586                      | 43,349   |
| 2.                   | Other Nonadmitted Assets:  |                                |                              |  |
| 2.1                  | Bills receivable .....   |                                |                              |  |
| 2.2                  | Leasehold improvements .....                                       | 10,438                         |                              | (10,438)   |
| 2.3                  | Cash advanced to or in the hands of officers and agents .....      |                                |                              |  |
| 2.4                  | Loans on personal security, endorsed or not .....                  |                                |                              |  |
| 2.5                  | Commuted commissions .....   |                                |                              |  |
| 3.                   | Total (Lines 2.1 to 2.5) .....                                     | 10,438                         |                              | (10,438)   |
| 4.                   | Aggregate write-ins for other assets .....                         | 1,168,431                      | 1,148,490                    | (19,941)   |
| 5.                   | TOTAL (Line 1 plus Line 3 and Line 4) .....                        | 1,374,106                      | 1,387,076                    | 12,970   |
| DETAILS OF WRITE-INS |  |                                |                              |  |
| 0401.                | Aquired Membership Value .....                                     | 1,047,810                      | 1,148,490                    | 100,680  |
| 0402.                | Prepaid Expenses .....   | 15,690                         |                              | (15,690)   |
| 0403.                | Long Term Investment Fair Value Adjustment .....                   | (7,235)                        |                              | 7,235  |
| 0498.                | Summary of remaining write-ins for Line 4 from overflow page ..... | 112,166                        |                              | (112,166)  |
| 0499.                | TOTALS (Lines 0401 through 0403 plus 0498) (Line 4 above) .....    | 1,168,431                      | 1,148,490                    | (19,941)   |

**EXHIBIT 2 - ENROLLMENT BY PRODUCT TYPE FOR HEALTH BUSINESS ONLY**

| Source of Enrollment |  | Total Members at End of |                       |                        |                       |                      | 6                                |
|----------------------|--|-------------------------|-----------------------|------------------------|-----------------------|----------------------|----------------------------------|
|                      |  | 1<br>Prior<br>Year      | 2<br>First<br>Quarter | 3<br>Second<br>Quarter | 4<br>Third<br>Quarter | 5<br>Current<br>Year | Current Year<br>Member<br>Months |
| 1.                   | Health Maintenance Organizations .....                             | 46,845                  | 50,585                | 55,631                 | 62,183                | 68,568               | 692,288                          |
| 2.                   | Provider Service Organizations .....                               |                         |                       |                        |                       |                      |                                  |
| 3.                   | Preferred Provider Organizations .....                             |                         |                       |                        |                       |                      |                                  |
| 4.                   | Point of Service .....   |                         |                       |                        |                       |                      |                                  |
| 5.                   | Indemnity Only .....   |                         |                       |                        |                       |                      |                                  |
| 6.                   | Aggregate write-ins for other lines of business .....              |                         |                       |                        |                       |                      |                                  |
| 7.                   | TOTAL .....  | 46,845                  | 50,585                | 55,631                 | 62,183                | 68,568               | 692,288                          |
| DETAILS OF WRITE-INS |  |                         |                       |                        |                       |                      |                                  |
| 0601                 | .....  |                         |                       |                        |                       |                      |                                  |
| 0602                 | .....  |                         |                       |                        |                       |                      |                                  |
| 0603                 | .....  |                         |                       |                        |                       |                      |                                  |
| 0698.                | Summary of remaining write-ins for Line 6 from overflow page ..... |                         |                       |                        |                       |                      |                                  |
| 0699.                | TOTALS (Lines 0601 through 0603 plus 0698) (Line 6 above) .....    |                         |                       |                        |                       |                      |                                  |

## Notes to Financial Statement

### Note 1 – Nature of Business and Summary of Significant Accounting Policies

Health Plan of Michigan, Inc. (the “Company”) operates as a state-licensed health maintenance organization (HMO). Health Plan of Michigan, Inc. provides medical services to persons primarily in southern Michigan who subscribe as recipients of state health benefits (Medicaid benefits).

**Physician and Hospital Contracts** - The Company contracts directly with physician/physician groups and hospitals for the provision of medical care and compensates the providers on either a capitation or fee for service basis. The Company has a risk sharing agreement with the primary care physicians, and a portion of the capitation payments may be retained for settlement of risk-sharing agreements.

**Employer Management Agreement** - The Company uses the services of a Professional Employment Organization (PEO) to provide professional employer services, including payroll processing, payroll tax filing, and employee benefit administration. Under this agreement, there exists a co-employment relationship, in which both the Company and PEO have an employment relationship with the worksite employees.

**Funds Maintained Under Statutory Requirements** - The Company maintains funds under statutory or contractual requirements to protect members and health care providers in the event the Company is unable to meet its contractual obligations. These funds can be issued only at the direction of the applicable insurance commissioner or other regulatory agency in accordance with statutory and contractual provisions. Interest earned on these funds can be utilized by the Company. At December 31, 2003 and 2002, \$1,050,599 and \$1,035,931, respectively, were held in cash to fulfill these requirements.

**Statutory Basis of Accounting** - The financial statements have been prepared in accordance with NAIC *Accounting Practices and Procedures* manual and the statutory accounting principles as prescribed by the Michigan Office of Financial and Insurance Services. Statutory accounting principles differ from generally accepted accounting principles (“GAAP”) in their definition of assets and liabilities. Specifically, certain assets (such as intangible assets, certain receivables, prepaid expenses, and software) are excluded from the statutory-basis balance sheet. GAAP net assets exceed statutory net assets by approximately \$1,374,106 and \$1,387,076 at December 31, 2003 and 2002, respectively. The Company adopted the NAIC’s Codification of Statutory Accounting Principles on January 1, 2003 at the direction of the Michigan Office of Financial and Insurance Services. There are no significant differences between statutory accounting principles prescribed by the NAIC and the State of Michigan

## Notes to Financial Statement

accounting requirements that are applicable to the Company, except for the transition period provided for certain statements of statutory accounting principles (SSAPs), by the State of Michigan. . The statements of statutory accounting principles for which a transition period has been provided are SSAP 16 – Electronic Data Processing Equipment and Software; SSAP 19 – Furniture and Equipment; Leasehold Improvements Paid by the Reporting Entity as Lessee; Depreciation of Property and Amortization of Leasehold Improvements; and SSAP 84 Certain Health Care Receivables and Receivables Under Government Insured Plans. The impact on statutory surplus of the difference in accounting principles prescribed by the NAIC and the State of Michigan, due to the transition periods allowed for the above referenced SSAP’s is \$153,606.

**Cash and Cash Equivalents** - The Company considers all highly liquid investments purchased with an original maturity date of three months or less to be cash equivalents. Certificates of deposit in banks or similar financial institutions with maturity dates of one year or less from the acquisition date are also considered cash under statutory accounting principles, and are reported at fair market value.

**Accounts Receivable** - Management believes all receivables are fully collectible; accordingly, no allowance for doubtful accounts has been recorded.

**Bonds** – bonds are stated at amortized cost using the interest method.

**Preferred stocks** – preferred stocks are stated at amortized cost.

**Investments in Joint Ventures, Partnerships and Limited Liability Companies** – the investment in the limited partnership is accounted for using the equity method.

**Real Estate Investments** – Real estate investments consist of property held for the production of income and are valued at the lower of cost or realizable fair market value.

**Property and Equipment** - Fixed assets are recorded at cost. Depreciation is recognized on a straight-line basis over the estimated useful lives of the assets. Depreciation expense for property and equipment totaled \$269,174 and \$214,713 for the years ended December 31, 2003 and 2002, respectively.

**Income Taxes** - The Company accounts for income taxes as prescribed by SSAP Number 9. A current liability or asset is recognized based on amounts currently payable or refundable on the current year tax return. Deferred liabilities or assets are reported for the estimated future tax effects of temporary differences between statutory and tax accounting methods.

## Notes to Financial Statement

**Revenue Recognition** - Medicaid capitation premiums are recognized in the period members are entitled to related health care services.

**Recognition of Health Care Service Costs** - Health care service costs and the related liabilities for claims payable are recorded when medical services are authorized, as well as when services are provided without authorization to the extent such services are expected to be ultimately authorized. Claims payable includes an actuarially determined estimate of the ultimate cost of settling claims.

**Use of Estimates** - The preparation of financial statements in conformity with accounting practices prescribed or permitted by the Michigan Office of Financial and Insurance Services requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Certain significant estimates exist relating to claims payable. It is at least reasonably possible that these estimates will be materially revised in the near term.

**Note 2 - Accounting Changes and Corrections of Errors**

The Company prepares its statutory financial statements in conformity with accounting practices prescribed or permitted by the Michigan Office of Financial and Insurance Services. Effective January 1, 2003, the State of Michigan requires that health maintenance organizations domiciled in the State of Michigan prepare their statutory basis financial statements in accordance with the NAIC *Accounting Practices and Procedures* manual in effect on January 1, 2003 subject to any deviations prescribed or permitted by the State of Michigan insurance commissioner. The effect of this accounting change resulted in a reduction of capital and surplus of \$16,335 as of January 1, 2003.

**Note 3 - Business Combinations and Goodwill**

This Note is not applicable to the Company.

**Note 4 - Discontinued Operations**

This Note is not applicable to the Company.

**Note 5 - Investments**

This Note is not applicable to the Company.

## Notes to Financial Statement

**Note 6 - Joint Ventures, Partnerships, and Limited Liability Companies**

The Company has no investments in joint ventures, partnerships, or limited liability companies that exceed 10% of the admitted assets of the Company.

**Note 7 - Investment Income**

This Note is not applicable to the Company.

**Note 8 - Derivative Instruments**

This Note is not applicable to the Company.

**Note 9 - Income Taxes**

Income tax expense totaled \$4,566,082 and \$1,870,614 at December 31, 2003 and 2002, respectively.

At December 31, 2003 and 2002 the Company’s balance sheet reflects the following amounts for federal income taxes:

|                        | <u>2003</u>     | <u>2002</u> |
|------------------------|-----------------|-------------|
| Current tax due        | \$ 1,850,000    | \$ 175,642  |
| Net deferred tax asset | <u>(35,000)</u> | <u>-</u>    |
|                        | 1,815,000       | 175,642     |

The components of the net deferred tax asset at December 31, 2003 are as follows:

|   | <u>2003</u>   |
|---|---------------|
| Total deferred tax assets               | (126,000)     |
| Total deferred tax liabilities          | <u>91,000</u> |
| Net Deferred tax asset - fully admitted | (35,000)      |
| Total Deferred tax assets nonadmitted   | -             |

Current income taxes incurred and changes in deferred taxes consist of the following for 2003:

|   |                 |
|---|-----------------|
| Current tax expense                             | 4,566,082       |
| Cumulative effect of adoption of SSAP No. 10    | (14,000)        |
| Net change in admitted statutory deferred taxes | <u>(21,000)</u> |

Notes to Financial Statement

4,545,082

The main components of the 2003 deferred tax amounts are as follows:

| <u>DTAs</u>           | <u>Statutory</u>    | <u>Tax</u>          | <u>Difference</u>   | <u>Tax effect</u>  |
|-----------------------|---------------------|---------------------|---------------------|--------------------|
| Accrued paid time off | 101,614.00          | -                   | (101,614.00)        | (34,000.00)        |
| Claims reserves       | <u>9,867,897.00</u> | <u>9,597,680.00</u> | <u>(270,217.00)</u> | <u>(92,000.00)</u> |
| Total                 | 9,969,511.00        | 9,597,680.00        | (371,831.00)        | (126,000.00)       |

  

| <u>DTLs</u>                                  |                     |                     |                  |                  |
|--|---------------------|---------------------|------------------|------------------|
| Net book value of fixed and amortized assets | 1,609,550.00        | 1,395,273.00        | 214,277.00       | 73,000.00        |
| Investments                                  | <u>5,618,577.00</u> | <u>5,564,582.00</u> | <u>53,995.00</u> | <u>18,000.00</u> |
| Total  | 7,228,127.00        | 6,959,855.00        | 268,272.00       | 91,000.00        |

Changes in the main components of DTAs and DTLs are as follows:

|  | <u>2002</u>  | <u>2003</u>  | <u>Change</u> | Tax Effect       |
|--|--------------|--------------|---------------|------------------|
| Accrued paid time off                        | (58,964.00)  | (101,614.00) | (42,650.00)   | (14,501.00)      |
| Claims reserve discount                      | (210,656.00) | (270,217.00) | (59,561.00)   | (20,250.74)      |
| Net book value of fixed and amortized assets | 1,403,271.00 | 1,395,273.00 | (7,998.00)    | (2,719.32)       |
| Unrealized gain                              | -            | (2,161.00)   | 2,161.00      | 734.74           |
| Other Adjustments                            |              |              |               | <u>15,736.32</u> |
|  | 1,133,651.00 | 1,021,281.00 | (108,048.00)  | (21,000.00)      |

Significant Book Tax Adjustments were as follows:

|                               | <u>Amount</u>   | <u>Tax Effect</u> |
|-------------------------------|-----------------|-------------------|
| Income Before taxes           | 13,232,680      | 4,532,193         |
| Reserve discount              | 59,561          | 20,400            |
| Depreciation and amortization | 7,998           | 2,739             |
| Accrued paid time off         | 42,650          | 14,608            |
| Other                         | <u>(11,261)</u> | <u>(3,857)</u>    |
|                               | 13,331,628      | 4,566,082         |

The following are income taxes incurred in the current and prior years that will be available for recoupment in the event of future net operating losses:

2003 \$ 4,566,082



**Notes to Financial Statement**

2002                      1,863,953

**Note 10 - Information Concerning Parent, Subsidiaries, and Affiliates**

The Company is a wholly-owned subsidiary of a holding company, Caidan Enterprises, Inc., as of December 31, 2003. In 2003, the Company paid dividends of \$750,000.

The Company is committed to repurchase the stock of minority stockholders upon termination or retirement based on a contractually determined amount. During 2003, a stockholder terminated his employment with the Company. The Company repurchased 1,376 shares of stock for \$750,000 under the agreement.

**Note 11 - Debt**

The Company has no outstanding debt at December 31, 2003. The Company had an outstanding liability to a former stockholder for the repurchase of stock in the amount of \$100,499, which was repaid in June 2002.

**Note 12 - Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences, and Other Postretirement Benefit Plans**

This Note is not applicable to the Company.

**Note 13 - Capital and Surplus, Stockholders’ Dividend Restrictions, and Quasi-Reorganizations**

The Company has 100,000 common shares authorized and 1,000 shares issued and outstanding at December 31, 2003. All shares are common stock with a stated value of \$3.78 per share.

Subject to other regulatory limitations on capital and surplus and working capital, the Company is limited by statute to paying dividends no greater than 10 percent of annual income without prior approval of the Michigan Office of Financial and Insurance Services.

The portion of unassigned funds (surplus) represented or reduced by changes in non-admitted asset values is \$29,305 and \$212,415 at December 31, 2003 and 2002, respectively. The portion of unassigned funds (surplus) represented or reduced by

**Notes to Financial Statement**

**Note 14 - Contingencies**

At December 31, 2003, the Company is not aware of, nor has it been informed of any pending litigation. No amounts have been accrued for contingencies.

**Note 15 - Leases**

The Company leases its office space under an operating lease. Rent expense totaled approximately \$171,412 and \$127,000 for 2003 and 2002, respectively. The future minimum rental payments under the operating lease as of December 31, 2003 are as follows:

|      |           |
|------|-----------|
| 2004 | \$227,663 |
| 2005 | 250,077   |
| 2006 | 268,096   |
| 2007 | 271,178   |

The Company also leases office furniture and equipment under various noncancelable operating lease agreements that expire through February 2005. Rental expense for office furniture and equipment for 2003 and 2002 was approximately \$105,484 and \$67,000, respectively. The future minimum office furniture and equipment lease payments as of December 31, 2003 are as follows:

|      |           |
|------|-----------|
| 2004 | \$105,563 |
| 2005 | 79,503    |
| 2006 | 51,003    |
| 2007 | 48,102    |
| 2008 | 8,816     |

**Note 16 - Information About Financial Instruments with Off-balance-sheet Risk and Financial Instruments with Concentrations of Credit Risk**

## Notes to Financial Statement

This Note is not applicable to the Company.

**Note 17 - Sale, Transfer, and Servicing of Financial Assets and Extinguishments of Liabilities**

This Note is not applicable to the Company

**Note 18 - Gain or Loss to the Reporting Entity from Uninsured A&H Plans and the Uninsured Portion of Partially Insured Plans**

This Note is not applicable to the Company.

**Note 19 - Direct Premium Written/Produced by Managing General Agents/Third Party Administrators**

This Note is not applicable to the Company.

**Note 20 –September 11 Events**

This Note is not applicable to the Company.

**Note 21 – Other Items**

At December 31, 2003 and 2002, the Company had admitted assets of \$1,540,228 and \$925,252, respectively, in accounts receivable for amounts due from governmental entities and other healthcare providers. The Company routinely assesses the collectibility of these receivables. At December 31, 2003 and 2002 the Company has determined there are no uncollectible receivables.

**Note 22 - Events Subsequent**

This note is not applicable to the Company.

**Note 23 - Reinsurance**

Health Plan of Michigan, Inc. maintains a non-cancelable reinsurance policy with a non-affiliated reinsurer to provide coverage on an annual per member basis after a \$125,000 deductible for eligible services is reached. The maximum lifetime reinsurance coverage payable under the agreement is \$2,000,000 per member. The Company has reported premiums net of reinsurance ceded of \$521,108 and \$410,400 as of December 31, 2003 and 2002, respectively. Losses recovered by the Company

## Notes to Financial Statement

totaled approximately \$402,288 and \$183,000 in 2003 and 2002, respectively. Unsecured reinsurance recoveries of \$69,733 were accrued in 2002.

The Company does not have reinsurance assumed, uncollectible reinsurance, or retroactive reinsurance.

### **Note 24 - Retrospectively Rated Contracts and Contracts Subject to Redetermination**

This Note is not applicable to the Company.

### **Note 25 - Change in Incurred Claims and Claim Adjustment Expenses**

The estimated reserve for claims incurred but not reported has been determined by an enrolled actuary. Although management believes that the provision for unpaid claims is adequate, no assurance can be given that the ultimate settlement of these liabilities may not be greater or less than such estimates. Any future adjustments to these amounts will affect the reported results of future periods.

Reserves for incurred claims and claim adjustment expenses attributable to insured events of prior years has decreased by \$1,955,044, as a result of reestimation of unpaid claims and claim adjustment expenses. This increase/decrease is generally the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

### **Note 26 – Intercompany Pooling Arrangements**

This note is not applicable to the Company.

### **Note 27– Structured Settlements**

This note is not applicable to the Company.

Notes to Financial Statement

Note 28 – Health Care Receivables

The Company has Pharmaceutical Rebate Receivables of \$ 186,214 and \$221,220 at December 31, 2003 and 2002, respectively, included in health care receivables.

Detail of Pharmaceutical Rebate Receivables:

| Quarter    | Estimated Pharmacy Rebates as Reported on Financial Statements | Pharmacy Rebates as Billed or Otherwise Confirmed | Actual Rebates Received Within 90 Days of Billing | Actual Rebates Received Within 91 to 180 Days of Billing | Actual Rebates Received More Than 180 Days After Billing |
|------------|--|---|---|--|--|
| 12/31/2003 | \$0  | \$0   |   |  |  |
| 9/30/2003  | \$110,936  | \$110,936   | \$0   |  |  |
| 6/30/2003  | \$75,278   | \$102,313   | \$0   | \$27,035   |  |
| 3/31/2003  | \$0  | \$103,466   | \$0   | \$0  | \$103,973  |
|            |  |   |   |  |  |
| 12/31/2002 | \$98,338   | \$98,338  | \$0   | \$0  | \$102,380  |
| 9/30/2002  | \$99,398   | \$99,398  | \$0   | \$0  | \$96,465   |
| 6/30/2002  | \$13,238   | \$83,354  | \$0   | \$70,116   | \$8,665  |
| 3/31/2002  | \$10,246   | \$82,322  | \$0   | \$45,747   | \$26,328   |
|            |  |   |   |  |  |
| 12/31/2001 | \$42,335   | \$60,732  | \$0   | \$34,557   | \$24,264   |
| 9/30/2001  | \$49,610   | \$49,610  | \$0   | \$36,306   | \$16,905   |
| 6/30/2001  | \$14,832   | \$45,493  | \$0   | \$30,661   | \$16,562   |
| 3/31/2001  | \$3,157  | \$53,797  | \$0   | \$0  | \$55,469   |

The Company has no accounts receivable from risk sharing arrangements at December 31, 2003 and 2002. At December 31, 2001 the Company had accounts receivable from year 2000 risk sharing arrangements of \$ 33,000.

# Notes to Financial Statement

**Note 29 – Participating Policies**

This note is not applicable to the company.

**Note 30 – Premium Deficiency Reserves**

This note is not applicable to the company.

**Note 31 – Anticipated Salvage and Subrogation**

Loss reserves have not been reduced for any salvage or subrogation. During 2003 and 2002, the Company received subrogation totaling \$26,398 and \$150,875, respectively.

**SUMMARY INVESTMENT SCHEDULE**

| Investment Categories |  | Gross<br>Investment Holdings |                 | Admitted Assets as Reported<br>in the Annual Statement |                 |
|-----------------------|--|------------------------------|-----------------|--|-----------------|
|                       |  | 1<br>Amount                  | 2<br>Percentage | 3<br>Amount  | 4<br>Percentage |
| 1.                    | Bonds:   |                              |                 |  |                 |
| 1.1                   | U.S. treasury securities .....   | 220,134                      | 0.769           | 220,134  | 0.769           |
| 1.2                   | U.S. government agency and corporate obligations (excluding mortgage-backed securities):                           |                              |                 |  |                 |
| 1.21                  | Issued by U.S. government agencies .....   |                              |                 |  |                 |
| 1.22                  | Issued by U.S. government sponsored agencies .....   |                              |                 |  |                 |
| 1.3                   | Foreign government (including Canada, excluding mortgage-backed securities) .....                                  |                              |                 |  |                 |
| 1.4                   | Securities issued by states, territories, and possessions and political subdivisions in the U.S.:                  |                              |                 |  |                 |
| 1.41                  | States, territories and possessions general obligations .....  |                              |                 |  |                 |
| 1.42                  | Political subdivisions of states, territories and possessions and political subdivisions general obligations ..... | 1,105,552                    | 3.862           | 1,105,552  | 3.862           |
| 1.43                  | Revenue and assessment obligations .....   | 879,780                      | 3.073           | 879,780  | 3.073           |
| 1.44                  | Industrial development and similar obligations .....   |                              |                 |  |                 |
| 1.5                   | Mortgage-backed securities (includes residential and commercial MBS):  |                              |                 |  |                 |
| 1.51                  | Pass-through securities:   |                              |                 |  |                 |
| 1.511                 | Guaranteed by GNMA .....   |                              |                 |  |                 |
| 1.512                 | Issued by FNMA and FHLMC .....   | 808,572                      | 2.825           | 808,572  | 2.825           |
| 1.513                 | Privately issued .....   |                              |                 |  |                 |
| 1.52                  | CMOs and REMICs:   |                              |                 |  |                 |
| 1.521                 | Issued by FNMA and FHLMC .....   |                              |                 |  |                 |
| 1.522                 | Privately issued and collateralized by MBS issued or guaranteed by GNMA, FNMA, or FHLMC .....                      |                              |                 |  |                 |
| 1.523                 | All other privately issued .....   |                              |                 |  |                 |
| 2.                    | Other debt and other fixed income securities (excluding short term):   |                              |                 |  |                 |
| 2.1                   | Unaffiliated domestic securities (includes credit tenant loans rated by the SVO) .....                             | 824,918                      | 2.882           | 824,918  | 2.882           |
| 2.2                   | Unaffiliated foreign securities .....  |                              |                 |  |                 |
| 2.3                   | Affiliated securities .....  |                              |                 |  |                 |
| 3.                    | Equity interests:  |                              |                 |  |                 |
| 3.1                   | Investments in mutual funds .....  |                              |                 |  |                 |
| 3.2                   | Preferred stocks:  |                              |                 |  |                 |
| 3.21                  | Affiliated .....   |                              |                 |  |                 |
| 3.22                  | Unaffiliated .....   | 443,320                      | 1.549           | 443,320  | 1.549           |
| 3.3                   | Publicly traded equity securities (excluding preferred stocks):  |                              |                 |  |                 |
| 3.31                  | Affiliated .....   |                              |                 |  |                 |
| 3.32                  | Unaffiliated .....   |                              |                 |  |                 |
| 3.4                   | Other equity securities:   |                              |                 |  |                 |
| 3.41                  | Affiliated .....   |                              |                 |  |                 |
| 3.42                  | Unaffiliated .....   |                              |                 |  |                 |
| 3.5                   | Other equity interests including tangible personal property under lease:   |                              |                 |  |                 |
| 3.51                  | Affiliated .....   |                              |                 |  |                 |
| 3.52                  | Unaffiliated .....   |                              |                 |  |                 |
| 4.                    | Mortgage loans:  |                              |                 |  |                 |
| 4.1                   | Construction and land development .....  |                              |                 |  |                 |
| 4.2                   | Agricultural .....   |                              |                 |  |                 |
| 4.3                   | Single family residential properties .....   |                              |                 |  |                 |
| 4.4                   | Multifamily residential properties .....   |                              |                 |  |                 |
| 4.5                   | Commercial loans .....   |                              |                 |  |                 |
| 4.6                   | Mezzanine real estate loans .....  |                              |                 |  |                 |
| 5.                    | Real estate investments:   |                              |                 |  |                 |
| 5.1                   | Property occupied by company .....   | 59,146                       | 0.207           | 59,146   | 0.207           |
| 5.2                   | Property held for production of income (includes \$..... of property acquired in satisfaction of debt) .....       | 622,104                      | 2.173           | 622,104  | 2.173           |
| 5.3                   | Property held for sale (\$..... including property acquired in satisfaction of debt) .....                         |                              |                 |  |                 |
| 6.                    | Policy loans .....   |                              |                 |  |                 |
| 7.                    | Receivables for securities .....   |                              |                 |  |                 |
| 8.                    | Cash and short-term investments .....  | 22,605,542                   | 78.971          | 22,605,542   | 78.971          |
| 9.                    | Other invested assets .....  | 1,056,181                    | 3.690           | 1,056,181  | 3.690           |
| 10.                   | Total invested assets .....  | 28,625,249                   | 100.000         | 28,625,249   | 100.000         |

**GENERAL INTERROGATORIES**  
**PART 1 - COMMON INTERROGATORIES**  
**GENERAL**

- 1.1 Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer?

Yes[X] No[ ]
- 1.2 If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations?

Yes[X] No[ ] N/A[ ]  
Michigan
- 1.3 State Regulating?
- 2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity?

Yes[X] No[ ]
- 2.2 If yes, date of change:  
If not previously filed, furnish herewith a certified copy of the instrument as amended.

06/16/2003
- 3.1 State as of what date the latest financial examination of the reporting entity was made or is being made.

12/31/2000
- 3.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released.

12/31/2000
- 3.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date).

07/24/2001
- 3.4 By what department or departments?  
State of Michigan Office of Financial and Insurance Services
- 4.1 During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity) receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.11 sales of new business?

Yes[ ] No[X]
- 4.12 renewals?

Yes[ ] No[X]
- 4.2 During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.21 sales of new business?

Yes[ ] No[X]
- 4.22 renewals?

Yes[ ] No[X]
- 5.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement?

Yes[ ] No[X]
- 5.2 If yes, provide the name of the entity, NAIC company code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

| 1              | 2                 | 3                 |
|----------------|-------------------|-------------------|
| Name of Entity | NAIC Company Code | State of Domicile |
|                |                   |                   |

- 6.1 Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? (You need not report an action either formal or informal, if a confidentiality clause is part of the agreement)

Yes[ ] No[X]
- 6.2 If yes, give full information:
- 7.1 Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity?

Yes[ ] No[X]
- 7.2 If yes,
- 7.21 State the percentage of foreign control

%
- 7.22 State the nationality(s) of the foreign person(s) or entity(s); or if the entity is a mutual or reciprocal, the nationality of its manager or attorney-in-fact and identify the type of entity(s) (e.g., individual, corporation, government, manager or attorney-in-fact)

| 1           | 2              |
|-------------|----------------|
| Nationality | Type of Entity |
|             |                |





**GENERAL INTERROGATORIES (continued)**

**INVESTMENT**

18. List the following capital stock information for the reporting entity:

| Class |                 | 1<br>Number of<br>Shares Authorized | 2<br>Number of<br>Shares Outstanding | 3<br>Par Value<br>Per Share | 4<br>Redemption Price<br>If Callable | 5<br>Is Dividend<br>Rate Limited? | 6<br>Are Dividends<br>Cumulative? |
|-------|-----------------|-------------------------------------|--------------------------------------|-----------------------------|--------------------------------------|-----------------------------------|-----------------------------------|
| 1.    | Preferred ..... | .....                               | .....                                | .....                       | .....                                | Yes[ ] No[ ] N/A[X]               | Yes[ ] No[ ] N/A[X]               |
| 2.    | Common .....    | ..... 100,000.000                   | ..... 1,000.000                      | ..... 3.780                 | ..... X X X .....                    | ..... X X X .....                 | ..... X X X .....                 |

19.1 Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date, except as shown by Schedule E - Part 3 - Special Deposits?

Yes[X] No[ ]

19.2 If no, give full and complete information, relating thereto:

20.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity, except as shown on Schedule E - Part 3 - Special Deposits, or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 16.1).

Yes[ ] No[X]

20.2 If yes, state the amount thereof at December 31 of the current year:

20.21 Loaned to others

20.22 Subject to repurchase agreements

20.23 Subject to reverse repurchase agreements

20.24 Subject to dollar repurchase agreements

20.25 Subject to reverse dollar repurchase agreements

20.26 Pledged as collateral

20.27 Placed under option agreements

20.28 Letter stock or securities restricted as to sale

20.29 Other

\$ .....

\$ .....

\$ .....

\$ .....

\$ .....

\$ .....

\$ .....

\$ .....

\$ .....

20.3 For each category above, if any of these assets are held by other, identify by whom held:

- 20.31
- 20.32
- 20.33
- 20.34
- 20.35
- 20.36
- 20.37
- 20.38
- 20.39

For categories (20.21) and (20.23) above, and for any securities that were made available for use by another person during the period covered by this statement, attach a schedule as shown in the instructions to the annual statement.

20.4 For category (20.28) provide the following:

| 1<br>Nature of Restriction | 2<br>Description | 3<br>Amount |
|----------------------------|------------------|-------------|
| .....                      | .....            | .....       |

21.1 Does the reporting entity have any hedging transactions reported on Schedule DB?

Yes[ ] No[X]

21.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state?

Yes[ ] No[ ] N/A[X]

If no, attach a description with this statement.

22.1 Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity?

Yes[ ] No[X]

22.2 If yes, state the amount thereof at December 31 of the current year.

\$ .....

**GENERAL INTERROGATORIES (continued)**

**INVESTMENT**

23. Excluding items in Schedule E, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Part 1 - General, Section IV.H - Custodial or Safekeeping agreements of the NAIC Financial Condition Examiners Handbook?
- 23.01 For agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:
- Yes[X] No[ ]

| 1<br>Name of Custodian(s)        | 2<br>Custodian's Address                         |
|----------------------------------|--|
| Schwab Institutional .....       | 1958 Summit Park Place Orlando, FL 32810 .....   |
| Credit Suisse First Boston ..... | 401 City Avenue #110 Bala Cynwyd, PA 19004 ..... |

- 23.02 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

| 1<br>Name(s) | 2<br>Location(s) | 3<br>Complete Explanation(s) |
|--------------|------------------|------------------------------|
| .....        | .....            | .....                        |

- 23.03 Have there been any changes, including name changes, in the custodian(s) identified in 23.01 during the current year?
- 23.04 If yes, give full and complete information relating thereto:
- Yes[ ] No[X]

| 1<br>Old Custodian | 2<br>New Custodian | 3<br>Date of Change | 4<br>Reason |
|--------------------|--------------------|---------------------|-------------|
| .....              | .....              | .....               | .....       |

- 23.05 Identify all investment advisers, brokers/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

| 1<br>Central Registration<br>Depository Number(s) | 2<br>Name                    | 3<br>Address                                       |
|---|------------------------------|--|
| 123286 .....                                      | Roble Asset Management ..... | 5700 Corporate Drive, Pittsburgh,PA<br>15237 ..... |

- 24.1 Does the reporting entity have any diversified mutual funds reported in Schedule D, Part 2 (diversified according to the Securities and Exchange Commission (SEC) in the Investment Company Act of 1940 [Section 5 (b)(1)])?
- 24.2 If yes, complete the following schedule:
- Yes[ ] No[X]

| 1<br>CUSIP #        | 2<br>Name of Mutual Fund | 3<br>Book/Adjusted<br>Carrying Value |
|---------------------|--------------------------|--------------------------------------|
| 24.2999 Total ..... | .....                    | .....                                |

- 24.3 For each mutual fund listed in the table above, complete the following schedule:

| 1<br><br>Name of Mutual Fund<br>(from above table) | 2<br><br>Name of Significant<br>Holding of the<br>Mutual Fund | 3<br><br>Amount of<br>Mutual Fund's<br>Book/Adjusted<br>Carrying Value<br>Attributable to<br>the Holding | 4<br><br>Date of<br>Valuation |
|--|---|--|-------------------------------|
| .....  | .....   | .....  | .....                         |

**GENERAL INTERROGATORIES (Continued)**

**OTHER**

25.1 Amount of payments to Trade Associations, Service Organizations and Statistical or Rating Bureaus, if any?

25.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to Trade Associations, Service Organizations and Statistical or Rating Bureaus during the period covered by this statement.

\$ ..... 33,101

| 1<br>Name                                  | 2<br>Amount Paid |
|--|------------------|
| Michigan Association of Health Plans ..... | 24,621           |
| American Association of Health Plans ..... | 8,480            |

26.1 Amount of payments for legal expenses, if any?

26.2 List the name of the firm and the amount paid if any such payments represented 25% or more of the total payments for legal expenses during the period covered by this statement.

\$ ..... 80,979

| 1<br>Name                              | 2<br>Amount Paid |
|--|------------------|
| Law Office of Tom Waelchli .....       | 55,175           |
| Miller, Canfield, Paddock, Stone ..... | 24,640           |

27.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or department of government, if any?

27.2 List the name of firm and the amount paid if any such payment represented 25% or more of the total payment expenditures in connection with matters before legislative bodies officers or department of government during the period covered by this statement.

\$ .....

| 1<br>Name | 2<br>Amount Paid |
|-----------|------------------|
| .....     | .....            |

**GENERAL INTERROGATORIES (continued)**

**PART 2 - HEALTH INTERROGATORIES**

- 1.1 Does the reporting entity have any direct Medicare Supplement Insurance in force?

Yes[ ] No[X]
- 1.2 If yes, indicate premium earned on U.S. business only:

\$ .....
- 1.3 What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit?

\$ .....
- 1.31 Reason for excluding:
- 1.4 Indicate amount of premium earned attributable to Canadian and/or Other Alien not included in Item (1.2) above.

\$ .....
- 1.5 Indicate total incurred claims on all Medicare Supplement insurance.

\$ .....
- 1.6 Individual policies - Most current three years:
- 1.61 Total premium earned

\$ .....
- 1.62 Total incurred claims

\$ .....
- 1.63 Number of covered lives

\$ .....
- All years prior to most current three years:
- 1.64 Total premium earned

\$ .....
- 1.65 Total incurred claims

\$ .....
- 1.66 Number of covered lives

\$ .....
- 1.7 Group policies - Most current three years:
- 1.71 Total premium earned

\$ .....
- 1.72 Total incurred claims

\$ .....
- 1.73 Number of covered lives

\$ .....
- All years prior to most current three years:
- 1.74 Total premium earned

\$ .....
- 1.75 Total incurred claims

\$ .....
- 1.76 Number of covered lives

\$ .....

2. Health Test

|     |                                 | 1            | 2          |
|-----|---------------------------------|--------------|------------|
|     |                                 | Current Year | Prior Year |
| 2.1 | Premium Numerator .....         | 97,918,564   | 64,563,007 |
| 2.2 | Premium Denominator .....       | 97,918,564   | 64,563,007 |
| 2.3 | Premium Ratio (2.1 / 2.2) ..... | 1.000        | 1.000      |
| 2.4 | Reserve Numerator .....         | 11,585,133   | 8,673,014  |
| 2.5 | Reserve Denominator .....       | 11,585,133   | 8,673,013  |
| 2.6 | Reserve Ratio (2.4 / 2.5) ..... | 1.000        | 1.000      |

- 3.1 Has the reporting entity received any endowment or gift from contracting hospitals, physicians, dentists, or others that is agreed will be returned when, as and if the earnings of the reporting entity permits?

Yes[ ] No[X]
- 3.2 If yes, give particulars:
- 4.1 Have copies of all agreements stating the period and nature of hospitals', physicians', and dentists' care offered to subscribers and departments been filed with the appropriate regulatory agency?

Yes[X] No[ ]
- 4.2 If not previously filed furnish herewith a copy(ies) of such agreement(s). Do these agreements include additional benefits offered?

Yes[ ] No[X]
- 5.1 Does the reporting entity have stop-loss reinsurance?

Yes[X] No[ ]
- 5.2 If no, explain:
- 5.3 Maximum retained risk (see instructions):
- 5.31 Comprehensive Medical

\$ ..... 192,500
- 5.32 Medical Only

\$ .....
- 5.33 Medicare Supplement

\$ .....
- 5.34 Dental

\$ .....
- 5.35 Other Limited Benefit Plan

\$ .....
- 5.36 Other

\$ .....
6. Describe arrangement which the reporting entity may have to protect subscribers and their dependents against the risk of insolvency including hold harmless provisions, conversion privileges with other carriers, agreements with providers to continue rendering services, and any other agreements:

Insolvency coverage under reinsurance policy and State Mandated Trust Fund
- 7.1 Does the reporting entity set up its claim liability for provider services on a service data base?

Yes[X] No[ ]
- 7.2 If no, give details:
8. Provide the following information regarding participating providers:
- 8.1 Number of providers at start of reporting year

..... 4861
- 8.2 Number of providers at end of reporting year

..... 5249
- 9.1 Does the reporting entity have business subject to premium rate guarantees?

Yes[ ] No[X]
- 9.2 If yes, direct premium earned:
- 9.21 Business with rate guarantees between 15-36 months

..... 0
- 9.22 Business with rate guarantees over 36 months

..... 0

**GENERAL INTERROGATORIES (continued)**  
**PART 2 - HEALTH INTERROGATORIES**

10.1 Does the reporting entity have Incentive Pool, Withhold or Bonus Arrangements in its provider contracts?

Yes[X] No[ ]

10.2 If yes:

10.21 Maximum amount payable bonuses

\$ ..... 759,939

10.22 Amount actually paid for year bonuses

\$ ..... 384,660

10.23 Maximum amount payable withholds

\$ ..... 143,779

10.24 Amount actually paid for year withholds

\$ .....

11.1 Is the reporting entity organized as:

11.12 A medical Group/Staff Model,

Yes[ ] No[X]

11.13 An Individual Practice Association (IPA), or,

Yes[ ] No[X]

11.14 A Mixed Model (combination of above)?

Yes[X] No[ ]

11.2 Is the reporting entity subject to Minimum Net Worth Requirements?

Yes[X] No[ ]

11.3 If yes, show the name of the state requiring such net worth.

Michigan

11.4 If yes, show the amount required.

\$ ..... 9,434,840

11.5 Is this amount included as part of a contingency reserve in stockholder's equity?

Yes[ ] No[X]

11.6 If the amount is calculated, show the calculation.

Net Subscription Revenues (\$97,918,564 - \$3,570,168) \$94,348,396 x 10% = \$9,434,840

12. List service areas in which the reporting entity is licensed to operate:

| 1                    |
|----------------------|
| Name of Service Area |
| Allegan, MI .....    |
| Barry, MI .....      |
| Berrien, MI .....    |
| Branch, MI .....     |
| Calhoun, MI .....    |
| Cass, MI .....       |
| Eaton, MI .....      |
| Genesee, MI .....    |
| Hillsdale, MI .....  |
| Huron, MI .....      |
| Jackson, MI .....    |
| Kalamazoo, MI .....  |
| Kent, MI .....       |
| Lenawee, MI .....    |
| Livingston, MI ..... |
| Macomb, MI .....     |
| Monroe, MI .....     |
| Montcalm, MI .....   |
| Muskegon, MI .....   |
| Oakland, MI .....    |
| Oceana, MI .....     |
| Ogemaw, MI .....     |
| Oscoda, MI .....     |
| Ottawa, MI .....     |
| Roscommon, MI .....  |
| St. Clair, MI .....  |
| St. Joseph, MI ..... |
| Sanilac, MI .....    |
| Tuscola, MI .....    |
| Van Buren, MI .....  |

FIVE-YEAR HISTORICAL DATA

|  | 1<br>2003  | 2<br>2002  | 3<br>2001  | 4<br>2000  | 5<br>1999  |
|--|------------|------------|------------|------------|------------|
| <b>BALANCE SHEET ITEMS (Pages 2 and 3)</b>   |            |            |            |            |            |
| 1. Total admitted assets (Page 2, Line 26) .....   | 30,583,712 | 18,046,964 | 12,811,370 | 7,588,708  | 4,602,151  |
| 2. Total liabilities (Page 3, Line 22) .....   | 15,579,879 | 9,526,691  | 8,164,118  | 6,467,565  | 4,427,932  |
| 3. Statutory surplus .....   | 9,434,840  | 1,000,000  | 1,000,000  | 1,000,000  | 100,000    |
| 4. Total capital and surplus (Page 3, Line 30) .....   | 15,003,834 | 8,520,273  | 4,647,252  | 1,121,143  | 174,219    |
| <b>INCOME STATEMENT ITEMS (Page 4)</b>   |            |            |            |            |            |
| 5. Total revenues (Line 8) .....   | 94,348,396 | 64,677,679 | 49,860,486 | 33,951,938 | 17,315,906 |
| 6. Total medical and hospital expenses (Line 18) .....   | 73,299,117 | 52,095,499 | 39,185,852 | 27,368,175 | 13,631,046 |
| 7. Total administrative expenses (Line 21) .....   | 7,926,421  | 6,635,238  | 5,068,055  | 5,074,832  | 2,339,008  |
| 8. Net underwriting gain (loss) (Line 24) .....  | 12,298,025 | 5,305,418  | 5,109,857  | 1,593,891  | 1,445,431  |
| 9. Net investment gain (loss) (Line 27) .....  | 184,044    | 225,346    | 346,723    | 495,801    | 86,844     |
| 10. Total other income (Lines 28 plus 29) .....  | 609        | 456        | 36         |            |            |
| 11. Net income or (loss) (Line 32) .....   | 7,916,596  | 3,660,606  | 3,607,559  | 2,089,692  | 1,445,431  |
| <b>RISK-BASED CAPITAL ANALYSIS</b>   |            |            |            |            |            |
| 12. Total adjusted capital .....   | 15,003,834 | 8,520,273  | 4,647,252  | 1,121,143  | 174,219    |
| 13. Authorized control level risk-based capital .....  | 3,225,169  | 2,428,216  | 1,920,705  | 1,490,168  | 731,723    |
| <b>ENROLLMENT (Exhibit 2)</b>  |            |            |            |            |            |
| 14. Total members at end of period (Column 5, Line 7) .....  | 68,568     | 46,845     | 33,434     | 23,684     | 15,910     |
| 15. Total members months (Column 6, Line 7) .....  | 692,288    | 481,992    | 350,035    | 240,371    | 153,578    |
| <b>OPERATING PERCENTAGE (Page 4)</b>   |            |            |            |            |            |
| <b>(Item divided by Page 4, sum of Lines 2, 3 and 5)</b>   |            |            |            |            |            |
| 16. Premiums earned (Lines 2 plus 3) .....   | 100.0      | 100.0      | 100.0      | 100.0      | 100.0      |
| 17. Total hospital and medical (Line 18) .....   | 74.9       | 80.7       | 79.5       | 80.6       | 88.8       |
| 18. Total underwriting deductions (Line 23) .....  | 83.8       | 92.0       | 90.8       | 95.3       | 104.0      |
| 19. Total underwriting gain (loss) (Line 24) .....   | 12.6       | 8.2        | 10.4       | 4.7        | 9.4        |
| <b>UNPAID CLAIMS ANALYSIS</b>  |            |            |            |            |            |
| <b>(U&amp;I Exhibit, Part 2B)</b>  |            |            |            |            |            |
| 20. Total claims incurred for prior years (Line 12, Col. 5) .....                                      | 6,717,970  | 4,831,094  | 5,251,986  | 2,969,069  | 342,603    |
| 21. Estimated liability of unpaid claims-[prior year (Line 12, Col. 6)] ..                             | 8,673,014  | 7,047,200  | 6,129,629  | 2,908,771  | 316,990    |
| <b>INVESTMENTS IN PARENT, SUBSIDIARIES AND AFFILIATES</b>  |            |            |            |            |            |
| 22. Affiliated bonds (Sch. D Summary, Line 25, Col. 1) .....   |            |            |            |            |            |
| 23. Affiliated preferred stocks (Sch. D Summary, Line 39, Col. 1) .....                                |            |            |            |            |            |
| 24. Affiliated common stocks (Sch. D Summary, Line 53, Col. 2) .....                                   |            |            |            |            |            |
| 25. Affiliated short-term investments (subtotal included in Sch. DA,<br>Part 2, Col. 5, Line 11) ..... |            |            |            |            |            |
| 26. Affiliated mortgage loans on real estate .....   |            |            |            |            |            |
| 27. All other affiliated .....   |            |            |            |            |            |
| 28. Total of above Lines 22 to 27 .....  |            |            |            |            |            |

**SCHEDULE D - SUMMARY BY COUNTRY**  
**Long-term Bonds and Stocks OWNED December 31 of Current Year**

| Description  |     |                              | 1<br>Book/Adjusted<br>Carrying Value | 2<br>Fair Value<br>(a) | 3<br>Actual Cost | 4<br>Par Value of<br>Bonds |
|--|-----|------------------------------|--------------------------------------|------------------------|------------------|----------------------------|
| BONDS<br>Governments (Including all obligations<br>guaranteed by governments)  | 1.  | United States .....          | 1,028,707                            | 1,020,574              | 1,158,643        | 969,269                    |
|  | 2.  | Canada .....                 |                                      |                        |                  |                            |
|  | 3.  | Other Countries .....        |                                      |                        |                  |                            |
|  | 4.  | Totals .....                 | 1,028,707                            | 1,020,574              | 1,158,643        | 969,269                    |
| States, Territories and Possessions<br>(Direct and Guaranteed)   | 5.  | United States .....          |                                      |                        |                  |                            |
|  | 6.  | Canada .....                 |                                      |                        |                  |                            |
|  | 7.  | Other Countries .....        |                                      |                        |                  |                            |
|  | 8.  | Totals .....                 |                                      |                        |                  |                            |
| Political Subdivisions of States,<br>Territories and Possessions<br>(Direct and Guaranteed)  | 9.  | United States .....          | 1,105,552                            | 1,109,660              | 1,125,775        | 1,000,000                  |
|  | 10. | Canada .....                 |                                      |                        |                  |                            |
|  | 11. | Other Countries .....        |                                      |                        |                  |                            |
|  | 12. | Totals .....                 | 1,105,552                            | 1,109,660              | 1,125,775        | 1,000,000                  |
| Special revenue and special assessment obligations<br>and all non-guaranteed obligations of agencies and<br>authorities of governments and their political<br>subdivisions | 13. | United States .....          | 879,780                              | 880,956                | 896,434          | 800,000                    |
|  | 14. | Canada .....                 |                                      |                        |                  |                            |
|  | 15. | Other Countries .....        |                                      |                        |                  |                            |
|  | 16. | Totals .....                 | 879,780                              | 880,956                | 896,434          | 800,000                    |
| Public Utilities<br>(unaffiliated)   | 17. | United States .....          |                                      |                        |                  |                            |
|  | 18. | Canada .....                 |                                      |                        |                  |                            |
|  | 19. | Other Countries .....        |                                      |                        |                  |                            |
|  | 20. | Totals .....                 |                                      |                        |                  |                            |
| Industrial and Miscellaneous and<br>Credit Tenant Loans (unaffiliated)   | 21. | United States .....          | 824,918                              | 820,532                | 850,720          | 760,000                    |
|  | 22. | Canada .....                 |                                      |                        |                  |                            |
|  | 23. | Other Countries .....        |                                      |                        |                  |                            |
|  | 24. | Totals .....                 | 824,918                              | 820,532                | 850,720          | 760,000                    |
| Parent, Subsidiaries and Affiliates  | 25. | Totals .....                 |                                      |                        |                  |                            |
|  | 26. | Total Bonds .....            | 3,838,957                            | 3,831,722              | 4,031,572        | 3,529,269                  |
| PREFERRED STOCKS<br>Public Utilities (unaffiliated)  | 27. | United States .....          |                                      |                        |                  |                            |
|  | 28. | Canada .....                 |                                      |                        |                  |                            |
|  | 29. | Other Countries .....        |                                      |                        |                  |                            |
|  | 30. | Totals .....                 |                                      |                        |                  |                            |
| Banks, Trust and Insurance Companies<br>(unaffiliated)   | 31. | United States .....          | 209,039                              | 214,784                | 209,535          |                            |
|  | 32. | Canada .....                 |                                      |                        |                  |                            |
|  | 33. | Other Countries .....        | 80,022                               | 82,110                 | 80,725           |                            |
|  | 34. | Totals .....                 | 289,061                              | 296,894                | 290,260          |                            |
| Industrial and Miscellaneous<br>(unaffiliated)   | 35. | United States .....          | 154,259                              | 153,020                | 154,580          |                            |
|  | 36. | Canada .....                 |                                      |                        |                  |                            |
|  | 37. | Other Countries .....        |                                      |                        |                  |                            |
|  | 38. | Totals .....                 | 154,259                              | 153,020                | 154,580          |                            |
| Parent, Subsidiaries and Affiliates  | 39. | Totals .....                 |                                      |                        |                  |                            |
|  | 40. | Total Preferred Stocks ..... | 443,320                              | 449,914                | 444,840          |                            |
| COMMON STOCKS<br>Public Utilities (unaffiliated)   | 41. | United States .....          |                                      |                        |                  |                            |
|  | 42. | Canada .....                 |                                      |                        |                  |                            |
|  | 43. | Other Countries .....        |                                      |                        |                  |                            |
|  | 44. | Totals .....                 |                                      |                        |                  |                            |
| Banks, Trust and Insurance Companies<br>(unaffiliated)   | 45. | United States .....          |                                      |                        |                  |                            |
|  | 46. | Canada .....                 |                                      |                        |                  |                            |
|  | 47. | Other Countries .....        |                                      |                        |                  |                            |
|  | 48. | Totals .....                 |                                      |                        |                  |                            |
| Industrial and Miscellaneous<br>(unaffiliated)   | 49. | United States .....          |                                      |                        |                  |                            |
|  | 50. | Canada .....                 |                                      |                        |                  |                            |
|  | 51. | Other Countries .....        |                                      |                        |                  |                            |
|  | 52. | Totals .....                 |                                      |                        |                  |                            |
| Parent, Subsidiaries and Affiliates  | 53. | Totals .....                 |                                      |                        |                  |                            |
|  | 54. | Total Common Stocks .....    |                                      |                        |                  |                            |
|  | 55. | Total Stocks .....           | 443,320                              | 449,914                | 444,840          |                            |
|  | 56. | Total Bonds and Stocks ..... | 4,282,277                            | 4,281,636              | 4,476,412        |                            |

(a) The aggregate value of bonds which are valued at other than actual fair value is \$.....

**SCHEDULE D - Verification Between Years**

|   |           |   |           |
|---|-----------|---|-----------|
| 1. Book/adjusted carrying value of bonds and stocks, prior year. .... |           | 6. Foreign Exchange Adjustment                                |           |
| 2. Cost of bonds and stocks acquired, Column 6, Part 3. ....          | 4,931,184 | 6.1 Column 17, Part 1.....                                    |           |
| 3. Increase (decrease) by adjustment:                                 |           | 6.2 Column 13, Part 2, Section 1.....                         |           |
| 3.1 Column 16, Part 1.....  | (192,615) | 6.3 Column 11, Part 2, Section 2.....                         |           |
| 3.2 Column 12, Part 2, Section 1.....                                 | (1,520)   | 6.4 Column 11, Part 4.....                                    |           |
| 3.3 Column 10, Part 2, Section 2.....                                 |           |   |           |
| 3.4 Column 10, Part 4.....  | (194,135) | 7. Book/adjusted carrying value at end of current period..... | 4,282,277 |
| 4. Total gain (loss), Column 14, Part 4.....                          |           | 8. Total valuation allowance.....                             |           |
| 5. Deduct consideration for bonds and stocks disposed of              |           | 9. Subtotal (Lines 7 plus 8).....                             | 4,282,277 |
| Column 6, Part 4.....   | 454,772   | 10. Total nonadmitted assets.....                             | 6,594     |
|   |           | 11. Statement value of bonds and stocks, current period.....  | 4,275,683 |



**SCHEDULE T - PREMIUMS AND OTHER CONSIDERATIONS**

**Allocated by States and Territories**

|                      |  | 1                            | 2                                  | Direct Business Only       |                      |                    |  |   |                             |
|----------------------|--|------------------------------|------------------------------------|----------------------------|----------------------|--------------------|--|---|-----------------------------|
|                      |  | Guaranty Fund<br>(Yes or No) | Is Insurer Licensed<br>(Yes or No) | 3                          | 4                    | 5                  | 6  | 7   | 8                           |
| State, Etc.          |  |                              |                                    | Accident & Health Premiums | Medicare Title XVIII | Medicaid Title XIX | Federal Employees Health Benefits Program Premiums | Life & Annuity Premiums & Deposit-Type Contract Funds | Property/ Casualty Premiums |
| 1.                   | Alabama (AL) .....   | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 2.                   | Alaska (AK) .....  | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 3.                   | Arizona (AZ) .....   | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 4.                   | Arkansas (AR) .....  | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 5.                   | California (CA) .....  | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 6.                   | Colorado (CO) .....  | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 7.                   | Connecticut (CT) .....   | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 8.                   | Delaware (DE) .....  | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 9.                   | District of Columbia (DC) .....  | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 10.                  | Florida (FL) .....   | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 11.                  | Georgia (GA) .....   | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 12.                  | Hawaii (HI) .....  | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 13.                  | Idaho (ID) .....   | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 14.                  | Illinois (IL) .....  | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 15.                  | Indiana (IN) .....   | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 16.                  | Iowa (IA) .....  | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 17.                  | Kansas (KS) .....  | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 18.                  | Kentucky (KY) .....  | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 19.                  | Louisiana (LA) .....   | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 20.                  | Maine (ME) .....   | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 21.                  | Maryland (MD) .....  | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 22.                  | Massachusetts (MA) .....   | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 23.                  | Michigan (MI) .....  | No ..                        | Yes ..                             |                            |                      | 98,439,672         |  |   |                             |
| 24.                  | Minnesota (MN) .....   | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 25.                  | Mississippi (MS) .....   | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 26.                  | Missouri (MO) .....  | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 27.                  | Montana (MT) .....   | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 28.                  | Nebraska (NE) .....  | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 29.                  | Nevada (NV) .....  | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 30.                  | New Hampshire (NH) .....   | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 31.                  | New Jersey (NJ) .....  | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 32.                  | New Mexico (NM) .....  | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 33.                  | New York (NY) .....  | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 34.                  | North Carolina (NC) .....  | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 35.                  | North Dakota (ND) .....  | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 36.                  | Ohio (OH) .....  | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 37.                  | Oklahoma (OK) .....  | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 38.                  | Oregon (OR) .....  | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 39.                  | Pennsylvania (PA) .....  | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 40.                  | Rhode Island (RI) .....  | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 41.                  | South Carolina (SC) .....  | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 42.                  | South Dakota (SD) .....  | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 43.                  | Tennessee (TN) .....   | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 44.                  | Texas (TX) .....   | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 45.                  | Utah (UT) .....  | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 46.                  | Vermont (VT) .....   | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 47.                  | Virginia (VA) .....  | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 48.                  | Washington (WA) .....  | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 49.                  | West Virginia (WV) .....   | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 50.                  | Wisconsin (WI) .....   | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 51.                  | Wyoming (WY) .....   | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 52.                  | American Samoa (AS) .....  | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 53.                  | Guam (GU) .....  | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 54.                  | Puerto Rico (PR) .....   | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 55.                  | U.S. Virgin Islands (VI) .....   | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 56.                  | Canada (CN) .....  | No ..                        | No ..                              |                            |                      |                    |  |   |                             |
| 57.                  | Aggregate other alien (OT) .....                                       | X X X ..                     | X X X ..                           |                            |                      |                    |  |   |                             |
| 58.                  | TOTAL (Direct Business) .....  | X X X ..                     | (a). 1 ..                          |                            |                      | 98,439,672         |  |   |                             |
| DETAILS OF WRITE-INS |  |                              |                                    |                            |                      |                    |  |   |                             |
| 5701                 | .....  |                              |                                    |                            |                      |                    |  |   |                             |
| 5702                 | .....  |                              |                                    |                            |                      |                    |  |   |                             |
| 5703                 | .....  |                              |                                    |                            |                      |                    |  |   |                             |
| 5798.                | Summary of remaining write-ins<br>for Line 57 from overflow page ..... |                              |                                    |                            |                      |                    |  |   |                             |
| 5799.                | TOTALS (Lines 5701 through<br>5703 plus 5798) (Line 57 above) ..       |                              |                                    |                            |                      |                    |  |   |                             |

(a) Insert the number of yes responses except for Canada and Other Alien.  
Explanation of basis of allocation of premiums by states, etc.:

**SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP**  
**PART 1 - ORGANIZATIONAL CHART**

Caidan Enterprises, Inc. (Federal Employer Identification # 52-2422207)

Organization Governance and Ownership Structure:  
Equity Shareholders

Shareholders at December 31, 2003:  
D. Cotton, M.D. 94.2%  
T. Lauzon 5.8%  
100%

Health Plan of Michigan, Inc. (MI; NAIC # 52563; Federal Employer Identification # 38-3253977)

Organization Governance and Ownership Structure:

Equity Shareholders  
Board of Directors

Shareholders at December 31, 2003:  
Caidan Enterprises, Inc. 100%

**56**  
Health Management, Inc. (common ownership with Health Plan of Michigan, Inc. majority stockholder)  
(Federal Employer Identification # 38-3360283)

Shareholders at December 31, 2003:  
D. Cotton, M.D. 100%